



News Highlights on Current Holdings

- Recirculation of shares in Global Banks Premium Income Trust (GBP.UN) :
 - The GBP.UN fund is undergoing its annual redemption privilege. This creates an opportunity for those wishing to increase their stake in this fund via the resale of those units which have been tendered for redemption. As outlined in the prospectus we have entered into a recirculation agreement whereby CIBC as the recirculation agent uses commercially reasonable efforts to find purchasers at a price which is not less than the prescribed redemption price to be paid to the redeeming unitholders. In practice this means that for 1 or 2 days CIBC (broker code 79) will, on the fund's behalf, be offering to sell units. During this period there will therefore likely be considerably more liquidity in the shares enabling larger purchase orders to be filled.... which I understand is a challenge during other trading periods. We therefore wanted to bring to your attention that in early April this recirculation opportunity will be opened – however as soon as CIBC have physically traded a sale then the recirculation 'window' will close same day or, preferably, the day after.
 - If you are interested in purchasing shares over this period we have attached the **most recent client friendly fund brief** and would point out the GBP.UN fund announced on March 3, 2010 that it intends to make quarterly cash distributions on its Trust units – with the intent being that the initial distributions will be \$0.04 per Trust unit payable to unit holders on the last business day of each quarter. A quarterly distribution in the amount of \$0.04 will be paid on April 15, 2010. We will be seeking to pay such distributions as tax efficiently as possible and initially expect the majority of the distribution to be characterized as return of capital.

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- **Legal & General** - Reported a set of results that beat consensus on every key line. Profits are well ahead on both an Embedded Value and IFRS basis, and shareholders equity the same. Net cashflow generated is comfortably above the prior guidance too. Outlook reads pretty well too (especially the Savings business). and we expect the stock to see a number of positive catalysts over the coming months - dividend upgrades, Embedded Value margin expansion

and announcements around a moderating Solvency 2 methodology.

- **Carnival Corp**, the leading global cruise vacation group, announced their Q1 of 2010 results Tuesday in Miami. The company reported better than expected net revenue yields (net revenues per unit, which is available lower berth days) and lower than expected unit costs. The company management was very pleased with the strength of the booking environment, in particular in North America, which allowed for stronger than expected pricing on bookings. The good top line performance and cost savings were partially offset by higher fuel prices compared to the same period of the year prior. During the quarter two new cruise ships joined the company's fleet in the growing European market, while two larger ships were ordered for the Princess brand, to be operational in 2013 and 2014 respectively. The previous full fiscal year earnings guidance was raised by roughly 5% to 2.25USD-2.35USD fully diluted earnings per share.
- **Rheinmetall's** 2009 full year results were reflective of the challenging economic conditions during the year, with the Automotive division earnings before interest and taxes (EBIT) down to -187EUR million from 61EUR million the year before. However, last quarter of the year was profitable for the division and the management is confident the division will return to profitability in 2010, supported by a decisive cost reduction program. The other division of the group, Defense, fared much better during the year offsetting the losses in Automotive and registering an 83% year on year order growth boosted by Puma and Boxer armored vehicles success. The newly set-up joint venture with MAN SE will further improve the order intake for the division. In order to show confidence in company's ability to maintain and improve its profitability, the management proposed a 0.30EUR/share dividend, 20% of the operating result, yet 1EUR/share below the previous year level.
- **Standard Chartered** has named V Shankar as its chief executive for the Middle East, Africa, the Americas and Europe. Shankar will be based in Dubai, from where he will focus on governance and try to grow the lender's business. He will take up his role on 1 May, moving from his role as executive chairman of the bank's principal finance unit and co-chairman of the private banking division. His predecessor, Gareth Bullock, was based in London.
- **Dubai** – The Dubai government announced last week that they are to provide an additional \$9.5bn in funding to Dubai World. The restructuring is aimed, if agreed by creditors, to allow DW to focus on its core holdings and to manage



& realize full value from its assets. The Dubai government has \$5.7bn still to come from previous funding from Abu Dhabi. Nakheel Bank creditors will be asked to restructure their debt, a restructuring that will likely take several months to implement. Dubai and Abu Dhabi have provided ~\$20bn to DW to date.... this approach has been pretty much as expected from the outset of this crisis....albeit earlier attempts to prefer local banks over western banks was both unwelcome and misguided.

- **JP Morgan.** As part of a massive overhaul of college assistance programs supported by President Barack Obama's health care success, private lenders and banks could lose a \$70B a year student loan business, the Associated Press reports. Under the proposal, student lending would be shifted from private banks to the federal government; private banks would no longer get fees from the government, and could mean the loss of billions of dollars to Sallie Mae, Citigroup, Bank of America and JP Morgan.
- **JPMorgan Chase** has signed a settlement offer for \$1.4B tax refund – an agreement we believe lets JPM take more than half of the \$2.6B that Washington Mutual (the bank acquired by JP Morgan) is eligible to receive under a law allowing companies to apply 2008-9 losses against taxes paid for the previous five rather than two years. More than 250 companies have benefited from the law already and expect to get \$12B in refunds. The companies include US Airways, Alaska Air, Liz Claiborne, HSBC Holdings and Legg Mason. While Seacoast Banking advised last week that it is not allowed to get a refund because it took TARP (Troubled Asset Relief Program) money, as JPMorgan did, JPM successfully reasoned that the ban on TARP recipients does not apply, since Washington Mutual paid the taxes that the refund is based on.
- **US Government** loan modification initiatives ...The US government has announced plans to require lenders to lower mortgage payments for some unemployment workers. In addition, the White House will encourage lenders (like Bank of America, see below) to eliminate some principal debt of homeowners who owe more than their home is worth. These efforts will include “at least three and at most six months” of assistance for jobless workers, and aims to increase efforts to keep people in their homes
 - **Bank of America** (not held in funds) is expected to announce plans to start forgiving mortgage loan principal for troubled homeowners who owe more than 120 percent of their home's value or are battling ever-expanding “negative amortization” loans.

According to a summary of the program obtained by Reuters, Bank of America pledged to offer an “earned principal forgiveness” of up to 30 percent in two stages. The lender will first offer an interest-free forbearance of principal that the homeowner can turn into forgiven principal annually over five years, provided they stay current on their payments. It seems the forgiveness can allow a homeowner to bring the loan value back down to 100 percent of the home's value over five years... it is unclear whether and to what extent other banks will react.

- With an estimated 24% of US homeowners who have a mortgage currently underwater on their mortgage, we have believed for some time that loss mitigation efforts designed to reduce mortgage payments are helpful, but fail to address the bigger risk to mortgage defaults of negative equity, so recent announcements of plans to broaden principal forgiveness as a loss mitigation tool have been received well by the market. As of now, principal forgiveness is still optional, so mortgage servicers (like Wells Fargo and JP Morgan) may continue to conclude that payment reduction without principal forgiveness will generate the highest Net Present Value for investors, limiting the potential scope of principal forgiveness efforts, but with the government now offering to share up to 21% of the cost of principal forgiveness, this should increase the incidence of principal forgiveness and reduce the ultimate number of defaults that occur as a result of negative equity. It's important to note, however, that with the government's plans not expected to be up and running until this fall, the impact may not be felt until 2011. The potential benefits to at-risk loans could be offset by otherwise performing borrowers who are incentivized to default to receive principal forgiveness, but if mortgage servicers vigorously enforce restrictions placed on these programs, such as a requirement that borrowers show financial hardship to be eligible for principal forgiveness under HAMP, we believe the damage from borrowers gaming the system could be limited.
- **Vodafone Essar** has reportedly (via Economic Times) reached a deal with Apple to sell its iPhone 3GS device in India, effective immediately
- **Lloyds Bank:** Despite protests from those who thought bailing out the banks was throwing away taxpayers' money, it is looking increasingly likely that the government's stake in



Lloyds Banking Group will make a profit, with speculation building that there might be a bit of a sell-off in the coming months. According to the latest report from UK Financial Investment (UKFI), the investment in Lloyds is at the break-even point. The UK government has paid an average price of 73.6p per share for 41% share in Lloyds' stake. However, when it is combined with fees paid by the bank, it effectively brings the average price paid by the government for Lloyds shares to 63.2p. with Lloyds stock price at 63.25p today.

Economic Activity, Consumer and Business Conditions

- **Greece:** The leaders of Germany and France clinched a deal on a joint European-IMF financial safety net for debt-stricken Greece at a EU summit on Thursday, in an effort to restore confidence in the euro. Tough terms imposed by German Chancellor Angela Merkel mean the mechanism could be activated only under strict conditions and would require the unanimous approval of the euro zone, giving Berlin a veto. Under the arrangement, euro zone countries would provide the majority of any funding for Greece, with rigorous conditions set by the European Commission and the ECB, and the International Monetary Fund would contribute money and expertise.
- **Portugal** downgraded last week by Fitch to AA- with negative outlook, not really a surprise looking at the market underperformance.
- **British** retail sales bounced back in February after a dismal January, helped by a record increase in household goods sales.
- The **US Healthcare** reform was signed into law by President Obama on March 23 and the final adjustments were voted in the Senate and the House of Representatives over the next couple of days.
 - The new legislation will expand medical coverage to include 32 million Americans previously uninsured. The law overhauls the health insurance industry forbidding, among other changes, the screen out of individuals with pre-existing conditions. A system of healthcare insurance exchanges is instituted at the state level. The Medicaid (health care provision system for people with low incomes) coverage is expanded to include people with up to 133% of the federal poverty line (FPL), while at the same time providing gradual subsidies for people with income within 100% to 400% of the FPL. Small businesses are being provided with tax credits to incentivize them to provide coverage for their employees. Everyone is required to buy health insurance or incur penalties otherwise, which is also applicable to businesses employing more than 49 people.
 - The reform and the revisions are estimated to cost the US taxpayers roughly 940 billion USD over the next 10 years. The costs are to be more than offset by a new tax on the highest income earners, fees on companies providing healthcare, including 80 billion USD from the pharmaceutical industry, and hundreds of billions USD of savings generated by the Medicare system.
 - The most important stipulations pertaining to the pharmaceutical industry include a requirement for 50% drug discounts for a portion of the Medicare program, an increase in the minimum rebates to Medicaid from 15% to 23% industry fees of 2.7 billion starting in 2011 and a regulatory pathway for biosimilars (biotech generic drugs). The brand-name biotech drugs manufacturers were offered, on the other hand, a 12 year sales exclusivity protection. A number of provisions did not end up on the final piece of legislation, which helped lift the industry outlook and the morale of the markets. They included an increase in existing government rebates for the Medicare part D program, the right of direct negotiation of the drug prices by the government, importation of drugs from lower cost countries and a public option, which would have further increased the government role in the healthcare provision.
 - Overall, the impact of the new law on the pharmaceuticals industry is seen to be neutral, in particular for the European pharma companies, which are traditionally underexposed to the US market. Our holdings in the sector are **Roche Holding, Novartis AG and Bayer AG.**
- The US core personal consumption expenditure (PCE) index, the Fed's favorite inflation gage, dipped at 1.32% on a year on year basis, as reported by the Bureau of Economic Analysis Monday morning. This is level is well outside the Fed's comfort zone of 1.5%-2.0%, signaling ongoing disinflationary pressures. Thus higher interest rates/ monetary tightening is that much more improbable in the near future.



- The same Bureau of Economic Analysis report provided a flat reading on the personal income growth stateside for the month of February, while showing a moderate increase in the level of personal consumption expenditures, up 0.3% from January. It follows then that there must have been a reduction in the savings level. The personal saving as percentage of disposable income number, part of the same report, decreased to 3.1% from the previous reading of 3.3%.
- The news remained grim in the housing and construction sector with the existing home sales decreasing further from 5,050 thousand units to 5,020 thousand units annual rate, while the new home sales posting the second consecutive record low at a 308 thousand units annual rate. The only consolation is that the rate of deterioration seems to be slowing down and that sales will eventually recover, even if from such low levels.
- 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 18.2 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.

Financial Conditions

- Policymakers continue to accommodate a recovery in bank profits. The U.S. 2 year/10 year treasury spread is 2.82% and the U.K.'s 2 year/10 year treasury spread is 2.81% - 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 (41 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. We understand however that the FDIC is changing the loss share arrangement on assisted deals from absorbing 95% of losses down to absorbing 80% although this is still attractive to acquiring banks it does probably lower the Internal Rate of Return.

Market Commentary



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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.

A handwritten signature in black ink, appearing to read "Chris Wain-Lowe".

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