Market Commentary

PORTLAND
INVESTMENT COUNSEL™

April 5, 2010

Recirculation of shares in Global Banks Premium Income Trust (GBP.UN):

The GBP.UN fund has completed its annual redemption privilege. This has created 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 we expect to commence next Monday. However as soon as CIBC have physically traded a sale then the recirculation 'window' will cease by close of business the following day.

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.

Randy LeClair presented his current views re preferred shares on BNN last week. Attached is the resultant article in the Globe & Mail.

Greg Placidi was interviewed by Shirley Won, see link to article below.

http://www.portlandic.com/Info.aspx?disp=newsroom

News Highlights on Current Holdings

- **Hutchison Whampoa**, the Asian conglomerate active in infrastructure, ports, energy, property, retail and telecommunications, announced its H2 and FY09 results last week. While the aggregate net profit improved 12% year on year, the performance was uneven between the various businesses while showing significant improvement in the second part of the year.
- **The energy business** (via company's interest in Husky Energy) showed significant weakness over the year as did the ports business, albeit to a lesser extent. The management is cautiously optimistic on the outlook of these two large business areas. Positive developments led to significant improvements in retail, with an earnings before interest and tax margin improvement of 104% in the second half of 2009. Similarly, the drag represented by the company's foray into the wireless market eased significantly, with losses generated by this business area down 44% for the year. Management noted that it would increase its dividend following a return to profitability in the wireless business.
- **Unicredit's** "One Bank project" looks likely to go ahead after the strategic committee approved a final proposal to submit the plan to the AGM after Easter.
- **Axa** has reached an agreement on the buy-out of the minorities on its Asia Pacific unit. Under the Agreement, National Australia Bank will acquire 100% of AXA Asia Pacific Holdings, retain the Australian and the New Zealand business and sell 100% of the Asian business to AXA. Net cash consideration paid by AXA in this transaction will amount to AUD 2.2bn (€1.4bn) and is expected to be earnings accretive. With this deal, AXA reinforces its presence in Asia whilst mitigating the integration risks given the fact that the company knows the acquired company very well. The Australian Financial Review writes that competition lawyers believe there's a 30%-40% chance that the NAB bid for AXA Asia Pacific is rejected by competition regulators (the ACCC is expected to rule on the deal on April 22nd).
- **Citigroup's** largest shareholder, the US Treasury Department, is planning to sell its 27% stake this year in what could become the biggest profit for the bank-bailout program. The Treasury could end the year with about $7.7bn following the completion of its Citigroup stake sale. After the stake is sold, the government will still own warrants and trust preferred investments; we understand both Morgan Stanley and JPMorgan competed for the mandate, and Morgan Stanley could make $60m-$70m on the sale.

- **Vodafone** (owns 40% of Verizon Wireless) – Apple plans to begin producing a new iPhone this year that would allow US phone carriers other than AT&T to sell the smartphone, a Wall Street Journal reported last week, citing people briefed by the company. The new iPhone would work on CDMA networks, which is used by Verizon Wireless as well as Sprint Nextel.
- **BHP Billiton** has struck agreements with a "significant number" of customers throughout Asia to sell most of its iron ore on shorter term contracts. The announcement follows a similar agreement reached with coking coal customers in Europe, China, India and Japan earlier this month.
- This move towards quarterly pricing reviews and away from the annual benchmarking system in iron ore contracts is we believe likely to have a resounding impact on industrial activity all over the globe. The seaborn bulk commodities (mainly iron ore and coal) market has seen dramatic developments over the last couple of years with under-investment earlier in the decade leading to a failure of supply to keep up with demand spurred by the industrial expansion of China. China now accounts for roughly 70% of the seaborn iron ore market and has become a significant net importer of coking (metallurgical) coal over the last two years.
- In this environment, large mining companies, locked in year-long contracts for delivery of iron ore at roughly 60USD/ton, were missing out on the opportunities presented by the increasingly significant spot market, where the iron ore was trading at roughly 120USD/ton. The new pricing system would allow for a smoothening of such pricing gaps at the expense of increased revenue volatility for the mining companies.
- Some opposition to changing the 40 year old yearly benchmark contracting system has been voiced, in particular from the steel companies and downstream industries, and various regulatory bodies are looking into price collusion claims. It is anticipated increase in the iron ore costs is likely to lead to increases of roughly one third in the price of steel and many fear the inflationary pressures as the price hikes will reverberate through the system. All in, the switch to quarterly contracting for iron ore and coking coal are clearly going to benefit the miners. BHP Billiton and Wesfarmers are holdings in our dividend themed funds are likely to be positively impacted by the change.
- **Santander** – According to The UK Times, Santander is in preliminary talks with Allied Irish Banks for the acquisition of its UK corporate business. According to the newspaper, the Spanish group wants to build a SME (Small/Medium Enterprise) banking operation in Britain and the acquisition of AIB's 40-branch network would give it an instant platform. The Irish Government is expected to decide this week whether AIB should sell the branches as it completes a second bail-out of Ireland's banking network. Any possible acquisition of SME branches in the UK should not come as a surprise, as Santander's interest in expanding its SME franchise in the UK is widely known. All in all, considering the size of the network, the acquisition of AIB's 40 SME branches should not have a meaningful impact on the group's financials or capital ratios, should the deal go ahead.
- **Standard Chartered** announced last week that it is considering an issue and listing in India of Indian Depository Receipts (IDRs) representing underlying new ordinary shares in the Company, raising more than $500 million. The Group has filed a Prospectus with the Securities and Exchange Board of India in connection with that proposal. Commenting on the public filing, Peter Sands, Group Chief Executive of Standard Chartered said, "Our intention to be the first company to list IDRs demonstrates how important India is to Standard Chartered. India is one of our largest and fastest-growing markets and achieved over $1bn in profits in 2009. We have a 150-year heritage in India. This is a unique opportunity to raise our profile and allow investors in India to participate in our future."
- **Dubai World's** restructuring of Dh24.8bn worth of debt is moving in the right direction although there are a few areas that need more clarity, Stephen Hester (Royal Bank of Scotland CEO) told Gulf News last week.
- **Irish Banks:** The National Asset Management Agency (NAMA) is an agency set up by the Irish government to buy the riskiest property related loans from the Irish banks. NAMA expects to acquire a total of €81bn of loans from five Irish banks, including Allied Irish Banks (AIB) and Bank of Ireland (BoI).
- On March 30, 2010, NAMA announced the 'haircut' it intends to apply to the first €16bn tranche of asset purchases, with the Irish regulator assuming this discount remains unchanged for capital planning purposes. The range of discounts applied to the loan transfers averaged 47%, but runs from 35% to 58%, with 43% for AIB and 35% for BoI. The breakdown by asset type and geographic location is not given by bank, but the first tranche was 65% investment property and 15% development land, with 58% from Ireland and 38% from the UK (exc Northern Ireland). The size of the discount has been based on a detailed loan-by-loan analysis, taking into

account the quality of underlying collateral and whether the loan is performing or non-performing. Collateral is assessed based on current values using approved EU Commission valuation methodology. The Irish Finance Minister has stated that he wants banks to run with a minimum Equity Tier 1 ratio of 7% and estimates that this leaves Bank of Ireland with a capital deficit of €2.7bn and AIB – where the outcome appears more severe – needing €7.4bn.

- **AIB** has stated that it intends to sell its US, Polish and UK operations. The Minister of Finance has suggested that the Irish government is likely to become a majority shareholder in AIB but expects to remain a minority shareholder in BoI.
- These measures are not unexpected and reflect our ongoing belief of the growing polarization between strong and weak banks – with local speculation now focused on whether a Canadian bank considers buying the minority stake in M&T bank (which AIB have now announced is for sale)… not yet in focus is the sale of AIB's Polish operations which we believe would be attractive to Unicredito… having met its CEO the previous week… and the UK operations which we understand to be of interest to Santander.
- **German Banks –** Financial Times wrote last week that Germany's banks may need to pay a combined €1.0bn-1.2bn annually into an insurance fund that will cover any future banking bailouts. The article says that the German Finance Minister pledged to present a detailed bill by July – which could be modified if international agreements demanded it – and importantly that "the German constitution barred him from turning levy and insurance fund into a selective bank tax" – this raises issues, we believe, about how the mechanics of such a tax will work, especially as a number of state-owned banks remain unprofitable. That said, the article cites government officials saying that private banks (including Deutsche Bank and Commerzbank) would pay for about half of the fund. France and the UK have also signaled they would look for an international bank levy… which if implemented would, we believe, serve to level the international playing field thereby ensuring all banks are incurring similar costs…but with many Asian banks not incurring the same degree of stress over recent years it could be hard to achieve. The Financial Times also references the difficulty in convincing Canada (who will chair the next G20 summit and set the agenda) to support an international levy, especially as its banks did not require any form of bailout; ultimately the Financial Times concludes this could derail anything being announced this year.
- **Royal Bank of Scotland/Santander:** Wall Street billionaire Wilbur Ross has acquired a stake in Sir Richard Branson's Virgin Money just days ahead of its anticipated bid for a national branch network being sold by Royal Bank of Scotland. The Financial Times reports today that Wilbur Ross has paid about £100 million for a 20-21% stake in Virgin Money, and says he will make a further investment of up to £500 million to fund part of the £ 2bn Virgin Money needs to buy the 318 branches from RBS. Virgin Money is expected to be bidding against Santander for these branches. The RBS branches are being sold as part of the European Commission ruling following the state aid provided to RBS. The network is believed to include about 5% of the UK's small business banking market and about 1.7m retail customers.

Economic Activity, Consumer and Business Conditions

Greece raised €5bn in a new syndicated bond issue at 5.9% a 35bp tightening than earlier in the month. Greece has raised €18bn so far this year out of the €53bn they need to in 2010. We understand the pricing of the €5bn 7 year bond to yield 310bps over mid swaps was a 6% yield which compares with the 6.3% on the 10 year maturity issued March 4th. Debt management agency head Petros Chistodoulou states they have completed funding for April.

UK house prices rose 0.7% to £164,519 in March, per the data published by Nationwide last week. House prices rose by 0.7% in March, reversing most of February's 0.8% dip. Nationwide said its data for the last two months was "consistent with a relatively flat profile for house prices, and in line with the recent drops seen in buyer inquiries and house sales." Its figures show the average price of a home in the UK stands at £164,519. This is 9% higher than in March last year, when the average was £150,946, but still well down on March 2008's figure of £179,110.

US employment is showing signs of stabilization, with a non-farm payroll employment growth of 162,000 jobs in March, and a flat unemployment rate reading at 9.7% for the same month. Another encouraging sign, last week's number of initial jobless claims came in lower than expected, at 439,000, much improved from the 651,000 number at the end of March 2009. On the flip side, the on-going weakness in the job market is underlined by flat growth in the average hourly earnings as well as disappointing growth in the average weekly hours, up to 33.3 hours from

33.1 hours the month prior, but way below the expectations of 33.9 hours. A significant portion of the job growth came from the private sector, with some of it being explained by sustained growth in the manufacturing sector.

The manufacturing ISM Purchasing Managers Index (PMI), the leading indicator of manufacturing activity in US, came in at 59.6 for April, improved from 56.5 in March, suggesting a further acceleration of the growth rate in the US manufacturing sector. The employment component of this index is signaling the 4th straight month of growth while the inventory component is showing inventory growth for the first time since April of 2006. All in, the PMI is pointing to manufacturing expansion for the 8th month in a row. The non-manufacturing ISM index, issued Monday morning, grew to 55.4 points in April from 53.0 the month before, implying an expansionary trend in the services sector as well, albeit to a lesser extent compared to the manufacturing counterpart. The biggest improvement in the services index was registered in the new order component, at 62.3 points from 55.00 the month prior. The employment component of the index, while still indicating contraction in the services area, has narrowed close to the inflexion point (50) at 49.8.

Some long due positive signs also showed up in the housing and construction sector, with the S&P/Case-Shiller Home Price Index for 20 major US cities improved by 0.3% in January, the 8th month of improvement, while the pending home sales index jumped to 97.6 from 90.2 the month prior. As a result some improvement is to be expected in the existing home sales number in about a month's time.

In Canada, the already robust recovery process was reinforced by a GDP growth of 0.6% in the month of January, exceeding the expectations of 0.5% and putting the Canadian economy on track for a higher than 5% annual rate growth for the first quarter of 2010. The wholesale trade sector lead the pack, but many other areas contributed to the growth, including manufacturing, retail and construction.

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 2.77% - 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.

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 17.4 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.

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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

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.

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Certain statements included in this document constitute forward-looking statements, including those identified by the expressions “anticipate,” “believe,” “plan,” “estimate,” “expect,” “intend” and similar expressions to the extent they relate to the Fund. The forward-looking statements are not historical facts, but reflect the Portfolio Management team’s current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. The Portfolio Management team has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise.

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