Market Commentary

PORTLAND INVESTMENT COUNSEL™

June 14, 2010

Recirculation of shares in European Premium Dividend Fund (EPD.UN):

- The EPD.UN fund is being re-circulated today, closing no later than Wednesday, June 16th. We have attached the most recent client friendly fund brief.

News Highlights on Current Holdings

Financial Services Companies

- **Santander** has reached agreement with Bank of America to buy back the 24.9% stake held in Santander Mexico for $2.5bn (2.1bn), so raising its stake to 99.9%. Bank of America originally bought the stake in 2003 from Santander for USD1.6bn The price paid implies deal multiples of an estimated Price/Book of 1.7x and Price/Earnings of 10.2x 2011E. The transaction is expected to have a positive impact (from lower minority interest) of 1.3% on Santander's Earnings per share from year one and a ROI of 15% from year three. The estimated impact of the transaction on core capital is -31bps, suggesting a still strong pro forma core tier 1 of ~8.6% 2010E. Overall the deal looks sensible from a strategic and financial perspective. Santander will now receive the full potential earnings from the Mexican business at a time when the Mexican economy is recovering, which should translate into improved asset quality and a pick-up in credit demand. The deal also addresses the potential negative impact from the Basel 3 draft proposals, regarding the treatment of minorities. Santander is therefore raising exposure to one of its core markets with high growth potential, Mexico - which is an under-banked market with strong bancarisation potential. The cycle in Mexico is just turning around and, over the next 2-3 years, the improved macroeconomic outlook should translate into improved asset quality and a pick-up in credit demand. Santander Mexico is the third largest financial institution in Mexico, with a market share of 14.8% in deposits and 13.0% in loans. 1000 branches and 8.8 million customers …and this purchase should push up Mexico's contribution to group profits from 5% to 7%.
- **VISA**: May US payment volume growth of 15% compares with 15% in April and 16% in March and 13% in quarter ending March. Debit growth of 22% in May compares with 22% in April and credit growth of 6% compares with 7% in April. Cross border of 19% compares with 17% in April and 14% in March quarter. Processed transactions of 15% globally compares with March quarter of 14%. Overall, all the metrics look good and we expect the concerns around interchange to dissipate over time.
- **National Australia Bank** announced last week that its subsidiary, Great Western Bank has acquired US$1.9bn of deposits and US$1.9bn of loans of US–based TierOne Bank from the FDIC for a cash payment of approximately US$76mn. The acquisition will be effectively immediately and it is estimated the acquisition will require less than 10bps of Group tier 1 capital. This purchase is similar to the recent acquisitions undertaken by TD Bank.
- **Royal Bank of Scotland** CEO, Stephen Hester has defined Australia as one of the core global offices in its new leaner incarnation and ended speculation over the future of RBS in Australia. RBS has indicated it will shrink from 43 counties to 17 that were considered "core".
- **Bank of America's Countrywide** will pay $108 million for overcharging struggling homeowners; Loan servicer inflated fees, mishandled loans of borrowers in bankruptcy.
- **Standard Chartered** sees Middle East revenues doubling in three to five years to $4bn annually. The bank plans to open offices in Saudi Arabia and Libya in 2H, and sees 35% rise in global Islamic banking revenues in 2010.
- **Australia and New Zealand Bank** has reaffirmed its target of generating 20% of earnings from Asia by 2012 and set itself a new goal of becoming a top-four institutional bank in Asia.
- Australia's superannuation industry is set to triple in size by 2035 (from $1.1trn to $3.2trn), but the number of major funds will shrink, says the chair of the federal government's Super System Review.
- **National Australia Bank** is understood to be close to finalising discussions with BNY Mellon, the global leader in custody, to form a joint venture with its custody unit, National Asset Servicing.
- **The London Stock Exchange** has signalled a frontal assault on Europe's two largest derivatives exchanges – Eurex (50% owned by Deutsche Borse) and NYSE Liffe – saying it planned to build a pan-European derivatives business within nine months.
- **Royal Bank of Scotland:** The front page of the companies section in the Financial Times last Wednesday lead with a story on RBS's disposal plans. Apparently it has narrowed the bidding for its Merchant Acquiring business down to 2 parties, each of which have preliminary offers of £2.5bn on the table. In addition, Morgan Stanley and Jefferies have emerged as potential buyers for the US Sempra business (which focuses on natural gas and power trading) a price tag of £1.4bn is mentioned, which is a lot better than earlier expectations. A sale of both businesses in 2H 2010 would boost Net Asset Value by approx 2-3p, compared with the 51p at end 2009. Separately RBS finalised its new covered bond programme last week attracting a AAA rating. In future

this should bring a new source of funding for RBS… there has already been c. 80bn of Covered Bond issuance this year with > 2bn last week alone.

- **JP Morgan Chase** last week announced a Chinese securities joint venture in its latest move to access mainland China's capital markets. The venture with First Capital Securities (a small state-owned broker) will be able to underwrite initial public offerings on the mainland bourses of Shanghai and Shenzen but not to trade stocks. JPM is seeking to own 33% of the newly created company, the maximum foreign investment permitted.
- **Macquarie:** Agricultural Bank of China – Macquarie is Joint Bookrunner and Join Lead Manager for the approximately US$14.4bn Initial Public Offering.
- **Axa SA,** Europe's second-biggest insurer, said it's in talks to sell part of its U.K. life insurance unit to Clive Cowdery's Resolution Ltd. for 2.75 billion pounds ($4 billion).

- **GREECE:** Deposit data for April was released earlier today: outflows in April, deposits were down by EUR5bn from EUR227bn to EUR222bn. This confirms the Bank of Greece commentary - in May, that deposits started to show a positive trend according to the commercial banks (some seeing some inflows, but still down end 1Q10 to date.
- The G-20 meeting of Finance Ministers and Central Bank Governors in Busan, Republic of Korea, June 5, 2010 released a Communiqué which appears to drop the idea of a Global Bank Tax, stating they "agreed the financial sector should make a fair and substantial contribution towards paying for any burden associated with government interventions, where they occur, to repair the banking system or fund resolution. To that end, recognizing that there is a range of policy approaches, we agreed to develop principles reflecting the need to protect taxpayers, reduce risks from the financial system, protect the flow of credit in good times and bad, taking into account the individual country's circumstances and options, and helping promote level playing field. The IMF will deliver their final report at the Toronto Summit." We anticipate individual countries are still likely to seek political popularity via some measures but will need to take into consideration that such measures might then impact those financial institutions' global competitiveness and so ability to generate taxable profits.

Dividend Paying Companies

- Tesco Plc, the largest U.K. retailer, said Chief Executive Officer Terry Leahy will step down in March after 14 years in the position. Phil Clarke, the head of the company's operations in Asia and Europe, will succeed him. Phil Clarke (50) joined Tesco in 1974 from school and has been on the board since 1998. He is currently director of International and IT. Tesco also announced several organisational changes reflecting the increasing scope of Tesco's global operations – that, in our view, differentiate Tesco from its UK peers. David Potts, currently director of retail and logistics in the UK, will become Tesco's first CEO of Asia. Richard Brasher, currently commercial director, will become Tesco's first CEO of UK (and Ireland). Tim Mason, currently CEO of Fresh & Easy in US, will take additional responsibility for branding, values and climate change and become deputy CEO.The transition Tesco announced – with an orderly handover to a well respected internal candidate – in our view, represents a well managed succession process and highlights the breadth and depth of internal management talent at Tesco.

- **During Sir Terry Leahy,** who is 54. tenure as a CEO of **Tesco**, the company's revenues quadrupled to 56.9 billion GBP from 13.3 billion GBP and the company expanded internationally, notably in Asia and US, with international revenues accounting for more than 30% of the group's revenues currently. Leahy's plans for the retirement do not explicitly include staying involved with the company, but rather focusing 'mainly on private investment'.
- ABB – announced an all cash deal to by Chloride Group, the third largest provider of UPS (Uninterruptible Power Supply) products and services for the medium and high power ranges. ABB is offering £860 million or 325 GBp per share, roughly 25 times Chloride's 2011 earnings for what it sees as a 'growth acquisition' and a good fit with other products and the portfolio of clients. Last year's revenues amounted to £336 million, while the profit before taxes was 30 million times, with roughly a third of the revenues being service related. Chloride's key customers are in commercial applications, energy and infrastructure and are spread all-over the world. The company employs 2,500 and has R&D centers in Italy, France, China, India and US. Chloride's Board of Directors is supporting the deal which is an improvement from the £723 million offered by the US rival Emerson Electric Co.

- **ABB's** credit rating has been raised to 'A' from 'A-' by the S&P as a reflection of ABB's strong operating and risk profile in weak market conditions and in recognition of the company's profitability, which remained well ahead of that of its peers. The outlook is stable and it allows for increasing shareholder remuneration and cash or medium-term financed acquisitions of several billions USD.

- **Novartis** – The Peripheral and Central Nervous System Drugs Advisory Committee, a panel advising the US Food and Drug Administration (FDA), gave a unanimous support vote to Gilenia (project name FTY720, active ingredient fingolimod), Novartis' innovative oral drug for the treatment of relapsing remitting multiple sclerosis. At the same time the vast majority of the panel recommended that the drug should also be investigated at lower doses than the proposed 0.5mg because of the side effects. The panel also recommended that the patient monitoring should be required. The FDA decision for US marketing of the drug should come in September.

- The advisory panel's vote unequivocally assesses the drug's efficacy compared to existing alternative injectable medicines in trials, while safety concerns are the norm in testing multiple sclerosis treatments. Multiple sclerosis drugs are prone to showing side effects as their desired effect is in fact a weakening of the immune system. Gilenia has though the significant advantage of being the only oral therapy at such a late testing stage and would provide unrivaled convenience in the treatment of relapsing remitting multiple sclerosis. In a market estimated at about 10 billion USD globally, Gilenia is credited with a 1.5 billion USD potential by 2015.
- **Siemens** – A Siemens led group won an order worth over 500 million EUR from Transpower to connect offshore wind farms, as reported by Reuters.
- **BMW** – The German car maker is reported to be in talks with Saab to supply its engines and transmission to the new Saab 9-2 model. Such a collaboration would fit well with the company's strategy to increase its exposure to small car production as it prepares to meet the European regulatory requirements.
- **Bayer AG and Onyx Pharmaceuticals Inc.** said their cancer drug Nexavar failed to prolong life in patients with lung tumors when used as an initial treatment.
- **Iberdrola**: Spain plans to replace its system of premiums paid for renewable energy with a system of regulated tariffs that would give companies a yield on their investment of between 7 percent and 8 percent, Cinco Dias reported.

Economic Activity, Consumer and Business Conditions

- **German chancellor Angela Merkel** unveiled drastic public spending cuts last week totaling more than Eur80bn, including 15,000 job cuts in the public sector. New taxes will also be imposed on air travel and the nuclear power industry, and some form of financial transactions tax is planned, in addition to a banking levy already agreed by the German government.
- German industrial production increased more than economists forecast in April as a weaker euro boosted export demand and local companies stepped up spending.
- Switzerland's lower house in a first vote rejected an agreement with the U.S. over suspected tax evasion at UBS AG, opening the door for further talks between both parliamentary chambers and a final vote by June 18.
- US – Retail sales in US were the main macroeconomic indicator of the last week and the reading was disappointing. The headline retail sales retreated by 1.2% in May versus April, while the retail sales excluding motor vehicles decreased by 1.1% over the same time period. The main culprit is the building materials category, which shrank by 9.3% in May, perhaps following the expiration of the homeownership incentive programs and despite a 'cash-for-appliances' statewide rebate program which has been running for months. The general merchandise category as well as clothing and accessories retreated in the month as well. Given the drop in the stock markets in May which equated a similar drop in US household wealth, a reduction of the propensity to spend of the American consumer does not come as a surprise.
- Luckily, the poor retail number was offset by good news coming from overseas, in particular from China, were the pace of growth is still strong and from the resource rich Australia, which recorded strong employment growth in May. Also on the good news side, the US Consumer Sentiment Index issued by the University of Michigan improved more than expected to 75.5 from 73.6 in May, with both 'current conditions' and 'expectations' components marching ahead. Somewhere in the background, the US consumer credit managed to squeeze a 0.04% year on year improvement, the second one this year and only the second one since January of 2009.
- **Canada –** The Canadian Capacity Utilization boosted a 4.7% improvement in Q1, moving to 74.2% from 70.9% in the prior quarter, while consensus was calling for a 73.3% level. While still well below the long run average of about 83%, the increase signals a quicker than expected recovery and gives Bank of Canada another reason to further 'normalize' the interest rate environment.
- A reduction of housing starts in Canada to 189,000 in May from 201,700 the month before, signals a cooling of the

housing market, which is the desired effect of a series of measures which have been rolling in over the last couple of months and were targeted at averting a housing bubble. Nevertheless, the New Housing Price Index came in, as expected, 0.3% higher in April than the month prior and about 2.5% higher than a year ago.

Financial Conditions

- Policymakers continue to accommodate a recovery in bank profits. The U.S. 2 year/10 year treasury spread is 2.54% and the U.K.'s 2 year/10 year treasury spread is 2.63% - enabling financial services companies' assets booked at these levels, to be very profitable.
- 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 (82 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. The FDIC changed 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.
- The U.S. 30 year mortgage market has remained low and has now fallen back to 4.72% - the record low is 4.71% - as the Government and Fed continue to incentivize new home owners. Existing U.S. housing inventory has reduced to 8.4 months supply of existing houses – but that is still higher than what we believe is a more normal range of 4-6 months. We believe it remains premature to consider a recovery in house prices but a measure of stability from which to build is welcomed....particularly for those financial services companies holding such assets in their portfolios.
- 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 27.99, which is below the levels experienced prior to the ECB bail out and substantially lower than last August/September. While, by its characteristics, the VIX will remain volatile, it is evident that increased tension in North & South Korea and Europe soverign debt concerns have increased risk aversion to the detriment of equities – 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. 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 the Funds we manage 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™

June 14, 2010

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.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.

Chris Wain-Lowe
Executive Vice President
Portland Investment Counsel Inc.
Phone: 905-331-4250 Ext. 4232
Fax: 905-331-4368
www.portlandic.com