Market Commentary

PORTLAND INVESTMENT COUNSEL™

September 6, 2010

Recirculation of shares in Copernican World Banks Income & Growth Trust (CBK.UN):

The CBK.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- 2 days CIBC will, on the fund's behalf, be offering to sell units via the TSX. During this period there will therefore likely be considerably more liquidity in the shares enabling larger purchase orders to be filled…. which we understand is a challenge during other trading periods. We intend to commence this recirculation opportunity, via CIBC, towards the end of this week – and as soon as CIBC have undertaken a sale then the recirculation 'window' will close at latest the day after.
If you are interested in purchasing shares over this period we have attached the most recent client friendly fund brief.

News Highlights on Current Holdings

Financial Services Companies

TD - reported Q3/10 adjusted cash EPS of $1.43 very close to the $1.44 consensus, helped by lower specific credit provisions (PCLs) and stronger revenue generation, offset by higher than expected expenses. Canadian retail earnings of $841 million were strong, up 11% QoQ and 24% YoY, owing to volume growth and declining PCLs. U.S. retail earnings of $287 million were up 17% QoQ and 19% YoY, assisted by recent acquisitions and lower credit charges. The 6.4% return on invested capital generated in U.S. retail banking is still much lower than in Canada but is at the highest level since Q3/08. Management disclosed that QoQ organic loan growth in the US was 2% which suggests successful execution of the bank's cross-selling efforts….. TD has quantified the impact of adopting Regulation E (legislation that limits the ability to charge overdraft fees in the U.S.). Net of mitigation initiatives, the expected impact is $40-$50mn pre-tax per quarter. This amounts to approximately $0.04 of annualized EPS. Notwithstanding Regulation E we do believe, finally, the US franchise is offering growth potential. The Canadian P&C division reported its third consecutive quarter of record earnings, stronger-than-expected earnings from the U.S. P&C segment and although the Group's Wholesale earnings declined 45% y/y, this was viewed my management as a more normalized rate – and was solid in the context of the market – and considerably better than Royal Bank of Canada. Specific loan loss provisions of $345 million came in below market expectations and new impaired loan formations (excluding debt securities classified as loans) declined slightly in the quarter. Group Return on Equity is at 13.6% and capital is strong with a Tier 1 ratio increased by 0.5% to 12.5% - albeit because this is a touch lower than Canadian peers we should expect dividends to be held rather than increased in the short term but that thereafter a more progressive policy will resume.
Morgan Stanley : The Federal Reserve has approved China Investment Corp's request to take up to 10% voting shares in Morgan Stanley.

Ping An (19% owned by HSBC) has agreed to buy a further 32 percent of Shenzhen Development Bank for 29.1 billion yuan ($4.3 billion) to get a controlling 54% stake in the Chinese lender. Offering price of new SDB shares is Rmb17.75 implying 1.90x Price/Book valuation for the bank.

Unicredit: Libyan investors could increase their stake in the bank up to 10% without asking for any seat on the board of directors. It is reported that the Bank of Italy are investigating the Libyan stake building.

HSBC and rivals including Barclays & Standard Chartered may (once again) be forced to consider moving their headquarters out of Britain if the U.K. government decides to break up the U.K.-headquartered banks (i.e. Lloyds and Royal Bank of Scotland). HSBC have held out this possibility on several occasions over the last few decades and Barclays signaled their willingness to move their headquarters to the Netherlands when bidding for ABN Amro 3 years ago. Any decision would, in our view, be taken to avoid being subservient to the whims of the U.K. Government … and it would be likely that Lloyds would try and extricate itself from such political pressure by seeking to have the UK Government's remaining 40% stake in it , bought out by other investors. Nonetheless, as exemplified by HSBC – the clear preference of all these banks is to remain UK headquartered… the government Banking Commission set up to consider whether to break up larger banks is not expected to reach a conclusion earlier than mid next year.

ICAP – last week became the first interdealer broker to exploit new regulations requiring off-exchange derivatives to be shifted onto formal trading systems by saying it would launch the first electronic market for interest rate swaps next week. Interest rate swaps (in which a pre-agreed fixed interest rate is swapped for a floating rate) account for about 75% of the over-the-counter (OTC) derivatives markets. US legislation now requires as many OTC derivatives as possible to be traded on exchanges. ICAP already acts as an intermediary between dealers that buy and sell interest rate swaps. Its new platform will operate alongside that to create a ‘single liquidity pool’.

UK Banks - The Independent newspaper last week highlighted calculations by trade magazine, The Banker, that have said that the UK taxpayer stands to make up to £27bn from the bank’s bailout when the Government’s stakes in Lloyds and RBS are sold. The money will comprise £19bn of share price gains, £2bn in fees for guaranteeing bank bonds, £5bn in fees for the APS and £1bn in loan fees according to the article.

Axa - has cut it’s stake in Goldman Sachs by over 50% in Q3 according to most of the UK press, the sales have taken the French company’s stake down from over 5% to just over 2% according to SEC filings.

JP Morgan has decided to exit all proprietary trading, and its commodities proprietary trading desk, which is in London, was one of the largest such trading desks at the bank. The bank hasn’t focused much on proprietary trading, but its small proprietary trading desks are nonetheless affected by the Dodd-Frank financial regulatory overhaul/ law, particularly by what is known as the Volcker Rule. To comply with the Volcker rule we expect the bank eventually will close all in-house trading.

Currency Trading – has surged to record levels – according to the Bank for International Settlements, an average $4,000bn is being traded daily, up from $3,300bn in 2007 when the BIS last surveyed the market. FX trade represents a less risky source of profits for banks ….. and the 10 banks with the highest FX turnover increased their market share from 70% to 77%. The top 20 accounted for 93%. The largest banks in the FX market are Deutsche Bank, Citigroup, UBS, JP Morgan and HSBC.

Barclays has announced Bob Diamond to be chief executive from March 2011. No great surprise in this move given his strong track record. Rich Ricci and Jerry del Missier will become co-CEOs of Barclays Capital. Bob Diamond has a strong track record at Barclays over the last 14 years, growing Barclays Capital in size and profits. This appointment could possibly raises the risk profile of Barclays, if Barclays gives more emphasis to its investment bank than retail and commercial arms as opposed to vice versa. However, management have already stated that there will be no change in strategy for the bank’s divisions and we continue to view the shares as very attractive here.

HSBC: Chairman Stephen Green is apparently to step down to become UK Trade Minister.

Wholesale funding costs.

Lloyds issued Eur1.25bn of five-year paper yesterday with a coupon of 3.75%. Bids totaled Eur2.2bn and came from 250 sources (more than usual). Lloyds commented that this meant it had achieved more than £20bn of its planned £20bn-£25bn long-term funding requirement for 2010. Royal Bank of Scotland also issued a Eur1.5bn covered bond yesterday. A positive development for funding for both of them and suggests some confidence is returning to bond markets.

We are seeing tentative signs of wholesale markets reopening for the Spanish banks, but at a clear cost. Bankinter issued EUR400m of 3-year covered bonds in July at a spread of 240bp over mid-swaps, Banesto last week issued EUR600m of 5-year covered bonds at 190bp over mid-swaps and this week Popular issued EUR700m 3-year covered bonds at 215bp and Sabadell EUR1bn 2-year covered bonds at a spread of 210bp. Even BBVA has isssued debt at spreads of up to 195bp in recent weeks. Issuance at such levels is hardly profitable, however we believe most banks seem keen to be seen to be able to access the market (as a means to improve confidence). In fact Spanish banks have raised more than $4bn in the first five days of September alone, according to Dealogic. Recent issuance has been confined to the big five listed banks and to La Caixa, while the weaker cajas remain heavily dependent on emergency liquidity from the ECB.

Dividend Paying Companies

Posco, the world’s 3rd largest steelmaker is considering buying Norway’s Elkem, a maker of silicon for solar panels, as part of efforts to expand into sectors such as renewable energy. This would follow Posco’s acquisition – finalized last week- of a controlling 68.15% stake in Daewoo International for Won 3,370bn ($2.8bn) its largest ever acquisition. The steel and crude oil trader, owns stakes in a nickel mine in Madagasgar, a coal mine in Australia and an oil block in Vietnam. Posco has boosted investment abroad in recent years as it builds up overseas production bases and moves to secure a steady supply of raw materials. The steelmaker agreed this year, to buy 15% of the Roy Hill iron ore project in Australia and 7.8% of a coal mine in Mozambique. In July it agreed to buy a 24.5% stake in the Australian Premium Iron project in Western Australia and became the largest shareholder of Murchison Metals with a 13.91% stake. The deal is advised by Citigroup and the total amount of the consideration has not been disclosed. Elkem's reported operating revenues amount to $1.2bn.

Carrefour – Carrefour's results for the first half of the year, announced last week in Paris, France, exceeded marginally the market's expectations, with good results across geographies, but mainly due to resilience in the home market of France, in particular in the supermarkets business. Group sales were up 6% year on year and up 1.8% at constant exchange rates ex petrol, with the growth markets (Latin America and Asia mainly) up 20%. Activity contribution (the equivalent of earnings before tax and interest ahead of the non-recurring effects) was up 7.6% year on year, with €236m of the €1096m being generated by cost savings. The company boasts an 80bp like for like market share gain in France, primarily due to strong performance in the supermarkets business. Carrefour also managed to reduce its inventory days to 35.6 from 36.2, on track to achieving the 34.2 inventory days for the end of the year. The company guided for a capital expenditure level of €2.2bn, flat compared to 2009 and primarily targeted to the transformational efforts in the G4 countries (France, Spain, Belgium and Italy) and expansion in growth markets, in particular China and Brazil. The company also provided a glimpse to its new hypermarket concept, tested in five different locations in France, Spain and Belgium. The turn-around in the hypermarkets business in developed markets hinges on the successful "re-invention" of the hypermarket (originally invented by Carrefour in early 60s). A more detailed review of the progress and findings related to the new concept, dubbed "Carrefour Planet", is scheduled for September 16.

A significant number of bidders have lined-up for the acquisition of Carrefour's stores in Thailand, Malaysia and Singapore, including Casino of France, the British giant Tesco, Aeon of Japan as well as regional players such as Dairy Farm, Berli Jucker and PTT. The Company derives about 9% of its sales from Asia, and the assets up for sale generate up to 15% of that. The group is divesting the stores as, despite being profitable, do not allow for a significant market share in their respective markets. The company would rather use the proceeds to fund expansion in key growth markets were it holds a leadership position, such as China, Brazil, Indonesia or Turkey. Carrefour split the sale in two separate deals, one for the 40 Thai stores and the other for the 19 stores in Malaysia and the 2 in Singapore. Some bidders are participating in both deals, Tesco is the market leader in Thailand and Malaysia with shares of 13% and 10% respectively. The estimated proceeds are of up to $1bn, Carrefour being advised by Goldman Sachs and UBS.

BHP – BHP agreed on a new price for the coking coal it supplies to the Japanese steelmakers. The price will be $209/t for the October to December period, 7% lower than in the prior period. The reduction in prices are a reflection of a slowdown in Chinese manufacturing and construction, yet industry analysts argue that a further price deterioration is improbable, as the Chinese steel production slowdown is leading to an inventory adjustment. China is responsible for about half of the global steel production.

In the meantime, BHP is continuing its hostile bid for Potash Corp and is showing no intention of raising its offer, given that, thus far, no competitive offers have been announced. China has a strategic interest in potash, as the second largest importer of the nutrient worldwide is keen on becoming self sufficient in food production, and is encouraging its own domestic industry champions to find ways to block BHP's bid. At the same time, the Chinese regulators announced the launching of a probe into Potash's potential acquisition by BHP. The Canadian regulators however, through the voice of Saskatchewan's Energy Minister, expressed concerns relative to a Chinese state backed bid for the Potash Corp assets. As a main user of the fertilizer, the Chinese would push for lower prices, which would be detrimental to the royalty revenues to Canadians.

Novartis – Novartis is reported to advance one of its experimental drugs, elinogrel, into the Phase III of the clinical trials. The drug, which has been developed together with Portola Pharmaceuticals, is a blood thinner which could be administered both intravenous and oral, and was shown to be more potent than Plavix, while maintaining a good risk profile. If trials are successful the company could apply for approval before the end of 2014.

Another Novartis developed experimental drug has been shown to clear malaria infection in mice with a single dose and it could be a possible future treatment for the disease. A report of the World Health Organization reveals that there are about 243 million cases of malaria each year, leading to an estimated 863 thousand deaths, mostly young children in Africa. A malaria vaccine developed by GlaxoSmithKline is presently in advanced stages of clinical studies and could be filed for approval as soon as 2012.

BMW – BMW announced that an extension of an existing purchasing agreement with Daimler is expected to lead to savings of about €100m. The company is looking at entering a similar agreement with PSA Peugeot Citroen, which is already supplying the Diesel engines for the Mini brand. Automakers worldwide are looking at such agreements as ways to leverage their scale and obtain increased efficiency.

Bayer – Bayer announced its first worldwide registration in US for a new herbicide, indaziflam, destined primarily for use in turf and ornamentals maintenance. The peak sales are expected to reach €150m.

On a pharma related development, a US judge ruled against Bayer's motion to extent a stay preventing a generic competitor of its key oral contraceptive Yasmin to apply for registration with the Food and Drug Administration (FDA). While against the company's request, the development does not come as a surprise, the company having prepared for the entry of generic competition in this chemistry for years. The company has a strong pipeline of new drugs, with some of them in the latest stages of development. At the European Society of Cardiology (ESC) meeting last week, the company presented encouraging data regarding the efficacy and the risk profile of Xarelto, a potential blockbuster drug, in the treatment of the deep vein thrombosis (DVT). The results also bode well for the other application for which the company will be looking approval, stroke prevention in atrial fibrillation. The drug could reach peak sales estimated at more than $2.5bn.

Economic Activity, Consumer and Business Conditions

US – The US economic environment unexpectedly showed improvement through some of its key indicator readings last week. The unemployment rate inched higher, as expected, to 9.6% in August from the 9.5% level, while the nonfarm payroll shed 54,000 jobs, fewer than the expected loss of 100,000 jobs. Of significance, the private sector actually added 67,000 jobs, while the previous month's private jobs creation number got revised upwards to 107,000 from the reported 71,000 improvement. The average duration of the unemployment, has retreated to 33.6 weeks in August, having reached the 35.2 weeks record level in June and improved marginally to 34.2 weeks in July. Part of the same report, the rate of growth in the average weekly hours disappointed, up marginally to 33.5 hours from 33.4 hours, yet significantly below the expectations of 34.2 hours. Similarly, the average hourly earnings were flat month on month, while expectations were for a slight improvement.

The Institute for Supply Management's (ISM) Purchasing Managers Index (PMI) showed a surprise improvement to 56.3 from 55.5, compared to broad expectations of a significant decline. The employment component of the index as well as the inventories were key contributors to the headline. A decrease in the new orders and export components offset the good news. The non-manufacturing ISM indicator dropped to 51.5 from 54.1, while the expectations were for a decline to only 53.5. The decrease was broad based, with most of the components retreating and it was led by a reduction in the orders and exports orders components, as well as in the employment component. In a separate report, the second quarter productivity was shown to have dropped by 1.8% (annualized), about in line with the expectations, yet certainly a far cry from the recent quarters strong productivity drive. At the same time, the unit labour costs grew by 1.1% (annualized) in the same quarter, a rate not seen since the beginning of the recession. Such developments are largely seen as a sign that the productivity improvements have reached capacity and that companies need to start hiring in order to maintain their top line growth.

The pending home sales index moved higher to 79.4 from 75.5, indicating that the existing home sales numbers will also likely improve and the housing sector will recover from the last few months of particularly negative news. The S&P/Case Shiller index for the 20 US metropolitan areas also moved higher than expected, up 4.2% year on year. The Consumer Confidence index by the Conference Board showed an unexpected recovery in August, up to the 53.5 level from 50.4 in July.

Canada – The GDP by industry report for June issued last week showed 0.2% month on month expansion, as expected. However the real GDP rose only 2% in the second quarter, below the consensus 2.5% expected rate of growth, with some of the weakness coming from lower government spending as well as a slow-down in the construction sector. Going forward, this modest rate of growth is expected to be maintained for the rest of the year.

Australia – The Australian Labor party lead by the interim Prime Minister Julia Gillard found a way to clinch power by striking the deal with two more independent lawmakers, having now enough support to form a minority government. The new government is expected to continue the implementation of the new mining resource tax, under its revised, watered down form. The Labor party aims to redirect the money raised through the mining tax to lower taxes for small businesses, rail links and ports.

Market Commentary

PORTLAND INVESTMENT COUNSEL™

September 6, 2010

Financial Conditions

Policymakers continue to accommodate a recovery in bank profits, albeit less than 6 months ago. The U.S. 2 year/10 year treasury spread is 2.15% and the U.K.'s 2 year/10 year treasury spread is 2.26% - enabling financial services companies' assets booked at these levels, to be 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, Spanish and German regional banks (as identified in the European stress tests) – rather than larger more diversified global financial services companies. The number of small U.S. banks failing continues to grow (118 to-date in 2010) and we expect will exceed last year's 140 which was the highest annual tally since 1992. This supports our view that 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 4.32% - the lowest rate since the Federal Reserve began tracking rates in 1971, as the Federal Reserve effectively continues to seek to incentivise home ownership. Existing U.S. housing inventory has increased to 12.5 months supply of existing houses – much 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 21.31, 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, 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. 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.

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

PIC10-0137-E(09/10)