Market Commentary

September 27, 2010

We have announced last week that:

1. Copernican International Premium Fund is to introduce quarterly distributions and;
2. We are proposing to merge Copernican World Banks Income & Growth Trust into Global Banks Premium Income Trust and to merge European Premium Dividend Fund into Copernican International Premium Dividend Fund.

News Highlights on Current Holdings

Financial Services Companies

Australia New Zealand is keeping its options open on how to fund a possible acquisition of a majority stake in Korea Exchange Bank, stating that it is still continuing with its due diligence. It also announced that its locally incorporated subsidiary in China will be established on 1 October 2010, with an initial investment of RMB2.5bn (A$400mn). Local incorporation allows ANZ China to apply for a Renminbi licence to support domestic retail and business clients in China, and allows for the introduction of a full range of foreign currency and RMB banking services for institutional and network clients. ANZ China also provides an opportunity to accelerate existing plans to establish up to 20 outlets in China over the next three years by allowing simultaneous branch and sub-branch expansion submissions.

Nasdaq OMX Group stated last week that it has won an approval from the U.S. Securities and Exchange Commission to launch a new stock exchange on Oct. 8. The new equities trading platform - known as NASDAQ OMX PSX - will focus on a price-size priority model, which encourages participants to display more shares at a price level.

Lloyds Banking Group has announced chief executive Eric Daniels will stand down from his role in a year's time. Not wholly unexpected as his reputation never completely escaped from the ill-feted purchase of HBOS during the financial crisis and his replacement will likely steer the bank as quickly as possible away from its remaining 41% UK Govt. ownership.

Deutsche Bank announced the fixing of the subscription price for its new shares at €33.00. This is 3.8% above the initially indicated fully underwritten subscription price of €31.80. Consequently, the bank is raising EUR10.8bn an extra EUR400m, the estimated post-deal NAV (incl. all expected charges) goes up from previously estimated €35.34 to €35.72. The bank is issuing 308.6 million new shares with a subscription ratio of 1 new share for each 2 old shares held, the gross proceeds of the issue will be Eur10.2bln. The rights will trade from 22 September to 1 October, the subscription period is between 22/09 and 05/10.

Unicredit has announced the resignation of its CEO, Alessandro Profumo. We understand that Profumo had tendered his resignation over the increased Libyan stakeholding. Dieter Rampl, Unicredit's Chairman has vowed to find a successor to Allessandro Profumo within a matter of weeks. This change is of some concern as Profumo had pushed through a number of changes to help streamline the operations – and so it remains to be seen whether his replacement will adopt a similar strategy.

Santander - M&T Bank is apparently considering giving up a majority stake to Santander through a merger with the Spanish bank's U.S. unit Sovereign, while retaining some elements of control. The banks are in informal talks with the Federal Reserve to gauge how such a deal would be received. A deal of this type would represent a compromise for the two parties who have had on off merger talks for some time with the sticking point being control of a merged M&T/Sovereign unit.

Bank of America's CEO has installed three former colleagues at FleetBoston Financial at influential posts. Moynihan hired former Fleet strategy head Terry Laughlin as a senior executive at the loss-plagued Countrywide unit. He recruited hedge-fund manager Mike Lyons as a strategy and planning executive to help shrink the bank's $2.2trn balance sheet. Moynihan also promoted Lauren Mogensen to deputy general counsel and corporate secretary, where she intersects with Moynihan and the bank's board.

Prudential last Wednesday's Wall Street Journal mentioned that Prudential was close to purchasing AIG's Star/Edison units, which has been widely speculated as the likely outcome. The WSJ article speculates on a price range of between $4b-$5b.

HSBC - Michael Geoghegan is to step down as CEO of the bank at the end of the year. He will be replaced by Stuart Gulliver, head of the group's investment bank and Douglas Flint will then take over as chairman. Both men have long established track records with HSBC and these changes should be well received, in our view.
Dividend Paying Companies

Carnival – Carnival Corporation, the largest cruise company in the world, announced third quarter results which beat the consensus expectations by a wide margin, with earnings per share of $1.62, compared to expectations of $1.47 and 22% higher than Q3 2009's $1.33. The beat was largely based on good operating performance, in particular lower net cruise costs per available lower berth day, excluding fuel. Net revenue yields (net revenue per available lower berth day) increased 6.2% in constant dollars, with both North American and European businesses being net contributors. The European brands net revenue yield grew despite an 8% increase in capacity during the period. Cruise ticket prices remained strong close to sailing even though consumers in the two major markets were affected by challenging economic times. The management indicated that the booking environment remained solid as consumers perceive cruises to provide higher relative value to those looking to make the most of their vacation money. With seven new ships on order, to be delivered by 2014, the company stated that it will reduce its capital expenditure, the available free cash flow being redirected towards paying a higher dividend. It is broadly expected that the company will increase its dividend to the pre-recession levels of $1.60 share, which would yield over 4%.

Novartis – Novartis is the first drugmaker to get approval for an oral multiple sclerosis drug in US, with its Gilenya drug receiving US Food and Drug Administration's (FDA) backing following a unanimous recommendation by an advisory panel in June. A couple of days later, a rival drug, Merck's cladribine, received a negative review and was recommended against by the European drug regulator, on the grounds that the potential benefits did not outweigh the safety concerns, in particular an increased risk of cancer. Thus, Merck's chances to keep its main pipeline drug in the race for the US market are getting slimmer, leaving Novartis' Gilenya as the first multiple sclerosis oral drug to hit the market.

Novartis sold the US rights for its bladder treatment Enablex to its partner in marketing the drug, Warner Chilcott in an attempt to streamline its growing portfolio. Warner Chilcott made an upfront payment of $400mm and additional milestone payments of up to $20mm are also part of the deal.

Novartis' oncology drug Tasigna was recommended for approval in European Union for chromosome-positive chronic myeloid leukemia in chronic phase. Tasigna surpassed Glivec, the company's existing drug for the indication, in key measures of treatment efficacy.

Siemens – Siemens announced the acquisition of Republic Intelligent Transportation Services, a leader in the US transportation services in an effort to enhance the offering of its Mobility Division on the key US market. The Rebublic ITS services and maintenance capabilities are expected to provide the ideal complement to Siemens' transportation products and solutions. The consideration for the acquisition has not been disclosed.

Carrefour – The state controlled PTT Pcl withdrew from the bidding process for Carrefour's Thai stores, leaving the Thai conglomerate Berli Jucker Pcl, the Thai retailer Central Group, the French chain Casino and Britain's Tesco in the race for what constitutes about 2% of the Thai retail market and is estimated to be worth $600mm.

BHP – BHP announced it cleared the first hurdle in the acquisition of Potash Corp as the US Federal Trade Commission provided antitrust clearance for the $39bn hostile bid. Earlier in the week the Potash Corp management's opposition to the deal was made even clearer by the suit launched by Potash against BHP in the United States. Potash claimed that BHP misrepresented and failed to inform investors about material facts as it allegedly sought to drive down the fertiliser company's stock by strategically timing announcements about BHP's own potash greenfield projects, in particular Jansen, which is set to become the largest potash mine in the world when it reaches peak production, sometimes past 2015. Some observers of the take-over attempt perceive Potash's suit as a desperate attempt to stop or delay the hostile bid in the absence of any competing bids.

Marius Kloppers, the CEO of BHP toured Canada last week trying to convince regulators and investors to get behind the company in its attempt to secure control of Potash. Its efforts have apparently been received coldly, but BHP is determined to continue its public relations assault and it hired key lobbyists to support the cause, including Stephen Harper's ex-adviser, Michael Coates.

China's Sinochem Corp hired investment bankers to explore ways of blocking BHP's take-over attempt as China is worried about another one of the key minerals the country is dependent, falling into the hands of the mining giant.

BHP announced it had approved the development of the offshore Macedon gas field, located off the coast of Western Australia. The estimate cost to develop the field is $1.5bn and BHP's own share would be $1.05bn. The company is controlling 71.43% of the development and will be the operator of the gas field. The field's recoverable reserves are estimated at between 400 and 750 billion cubic feet of gas.

Economic Activity, Consumer and Business Conditions

US – Encouraging reports brought back in focus the US manufacturing sector, as the durable goods orders excluding transportation moved 2% higher in August compared to expectations of a 1% increase and a drop of 2.8% in July. The advance was led by the computer and communication equipment orders as well as by an increase in the machinery and primary metals orders. Orders for the transportation equipment, including motor vehicles and aircraft, dropped in the month of August, causing the headline durable goods orders to fall by 1.3% compared to a gain of 0.7% in July.

Modest improvements in the housing and construction numbers helped alleviate some of the fears tied to the fate of the sector. The number of housing starts surprisingly advanced in August to 598,000 units annual rate, higher than July's 541,000 units and higher that the expectations of an improvement to 550,000 units. Favourable weather is partly credited for the unexpected improvement, yet in a sign that the sector could be slowly recovering, the building permits were also marginally better, to 569,000 units annual rate compared to expectations of a 560,000 figure and the previous month's reading of 559,000. As far as housing sales are concerned, the existing home sales were slightly better than expected, up to 4.130 million units annual rate, while the new housing sales improved to 288,000 annual rate, largely in line with the expected 290,000 figure.

The US Leading Economic Indicators (LEI) unexpectedly improved by 0.3% in August, compared to expectations of only a 0.1% increase, pointing to an acceleration of the economic recovery in a couple of quarters, yet the current and lagging indicators are indicating a slowdown of the growth trends for the time being. The Federal Open Market Committee (FOMC) September meeting outcome was hardly surprising, with rates being held steady and the wording of the statement only slightly altered to suggest the possibility of a second round of quantitative easing. Nevertheless, the Fed's renewed commitment to the economic recovery process was reassuring for the markets which rallied on the announcement.

Canada – Canada's retail sales suffered a pull-back in July, being impacted by the introduction of the HST in Ontario and British Columbia. Sales of housing related items such as furniture, building materials and appliances led the decline. Given the decrease in demand, with the retail sales retreating for four months in a row, the reduction in the consumer pricing indexes is less surprising, with the headline figure down to 1.7% year on year from the previous month's rate of 1.9%, while the core reading, adjusted for the volatile components such as food and energy, held steady at 1.6% year on year rate.

Germany – A small raise of the German Business IFO Index in September brought the latest reading to 106.8 from 106.7, the highest level in three years, pointing to the fact that Europe's largest economy is doing very well for the time being, while the expectations index retreated somewhat to 103.9, compared to a 105.2 reading in August.

Wholesale funding

The European Union Financial Stability Facility has been given a top-notch AAA rating by the rating agencies, freeing it to issue bonds to the market . This bail-out fund is reliant on commitments made by 15 eurozone national governments (which excludes Greece as it is already using bail-out loans) to back its debt with their own balance sheets. As expected, the E 440bn facility represents guarantee capacity versus E 367bn lending capacity (ie. 120% overcollateralization)

Investec plans to test the market with a £250m ($390m) securitisation of 'non-standard' mortgages, including some subprime loans.

Financial Conditions

The EU passed legislation creating three new European Supervisory Authorities and a European Systemic Risk Board to keep national regulators at the fore whilst ensuring a common rule book to prevent future economic crises. The ESAs, which will be up and running by January 2011, have the ability to mediate disputes between national supervisors, to guide national regulators, and to monitor how national authorities implement EU legislation. The ESRB will put in place a common set of indicators to permit fair and open comparisons between cross-border financial institutions and send out appropriate warnings.

UK economy - Moody's last week backed the UK's economy by maintaining its top credit rating. "Despite a weak post-crisis balance sheet and challenging economic outlook, the UK is able to meet these challenges whilst maintaining its Aaa credit rating," the rating agency said . It added that the UK also retained a stable outlook

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 2.13% and the U.K.'s 2 year/10 year treasury spread is 2.33% - 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 (127 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 4.37% - (the lowest rate since the Federal Reserve began tracking rates in 1971 was in August at 4.32%), as the Federal Reserve effectively continues to seek to incentivise home ownership. Existing U.S. housing inventory has increased to 11.6 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 22.59, which is below the levels experienced prior to the ECB bailout 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

PIC10-0151-E(09/10)