



Recirculation of shares in Copernican International Premium Dividend Fund (CPM.UN):

The CPM.UN fund is in the process of going through its annual redemption which is to be paid on December 21st to unitholders who have submitted their units for redemption in November. 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 CIBC will, on the fund's behalf, be offering to sell units via the TSX at a price which is net of the current retraction fees (\$0.45) and which needs to be settled on or before the payment date for the redeeming unitholders.

The retraction fees are zero by January 2014 and so for clients able to consider an investment horizon beyond 3 years, this recirculation presents an opportunity to invest now at an attractive discount to the underlying net asset value.

CPM has also announced a targeted distribution of \$0.05 per unit per calendar quarter, to commence for unitholders of record on 31st December

We expect to initiate this recirculation process by early – mid December and for those interested in purchasing shares over this period, via the TSX, we have attached the most recent quarterly fund brief.

News Highlights on Current Holdings

Financial Services Companies

Dividends Payouts

The Federal Reserve published new guidelines for the 19 banks which initially were required to participate in the TARP funding (troubled asset relief program) to increase their dividend payout ratios to shareholders.

The stress test, expected to be filed by January 7, 2011, is expected to incorporate a two-year time horizon estimating losses and revenue levels under an adverse macroeconomic scenario provided by the Fed.

The three requirements are:

1. Pay back all government capital
2. Pass an updated stress test on a 5% Tier 1 common calculation, and
3. Achieve the 7% minimum common equity to Risk Weighted Assets under Basel III.

Most important is that the language implies that banks don't necessarily have to be above 7% currently, but have to demonstrate that they are highly confident that they have a path to achieving a 7% level.

This action removes the regulatory constraint and resulting from which we expect banks to increase their dividends across 2011 and to more normalized levels by 2012.

Barclays: The managers of Barclays Private Equity have agreed to acquire the bank's buy-out arm in return for paying the lender a share of future profits. The deal is unusual in that there is no upfront cash payment – unlike many cases when private equity groups have bought themselves out of UK banks. Barclays may have been forced to accept less for BPE, with assets under management of €4bn (£3.4bn), due to the weakened outlook for private equity. The possibility of this sale has been rumoured for a while.

Lloyds Bank - The private equity arm of Lloyds, Lloyds TSB Development Capital, has for the first time outlined plans to spin off from its banking parent. Darryl Eales, chief executive of Lloyds TSB Development Capital, said it was expected to start raising money from third-party investors by 2013 according to an article in the Financial Times last week.

Royal Bank of Scotland: Mitsubishi UFJ Financial Group has confirmed its plan to buy the project financing business of the Royal Bank of Scotland. MUFG will buy RBS's loan portfolio for £3.8bn. Indicative pricing suggests 5% discount to book value. A little better than the 10% benchmark they have suggested for the whole non-Core portfolio.

Scotiabank has agreed to make an offer for all of the common shares of DundeeWealth that the Bank does not own. Scotiabank currently owns 18% of DundeeWealth. The value of the offer to DundeeWealth shareholders is \$21.00 per common



share representing an enterprise value for DundeeWealth of approximately \$3.2 billion. Scotiabank will offer shares and cash. Dundee Corporation owns 48% of DundeeWealth. As a result of Dundee Corporation's commitment to tender, on completion of the offer Scotiabank will own at least 67% of DundeeWealth. After the completion of the offer, Scotiabank also expects to proceed with the acquisition of the balance of the common shares of DundeeWealth.

Financial Infrastructure

ICAP's first half 2011 results were 9% ahead of consensus with eps up 23%, boosted by a low tax rate of 26%. Revenues were a bit better than we had expected, and interest expense lower. ICAP said it sees 30% as a sustainable tax rate in future.

Deutsche Boerse: Attention may return to the issue of OTC (over the counter) clearing and the opportunity available to Deutsche Boerse over the short and medium term. This comes with the news that the Singapore Exchange has begun clearing OTC interest rate Swaps denominated in US dollars and Singaporean dollars with 9 bank clearing members. This is the first such clearing platform in Asia and highlights the role that exchanges with clearing capabilities will potentially play in the forefront of this following the European Commission Proposals in this area in September 2010 and the Dodd-Frank Act in the US. Singapore is looking to expand into forward forex contracts and forex options in the fullness of time. This launch builds on SGX's existing AsiaClear operations for OTC commodity and energy derivatives. In our opinion this highlights the advantage Deutsche Bank has in Europe in having both its clearing capability for Eurex and the Clearstream business. Also it highlights the scope for Deutsche Bank to benefit from offering clearing cross border and in Asia.

Dividend Paying Companies

National Grid has reported robust figures for the half year, beating consensus by approximately 7%. Operating profit of £1509m was up 31%. Adjusted pre-tax profits of £938m was 45% higher in the period, and adjusted Earnings Per Share increased by 5% to 20.3p. The interim dividend of 12.9p (+8%) is consistent with the dividend policy and in line with expectations. The positive surprise was driven principally by faster recovery of prior year revenue entitlements and a more pronounced effect from volume growth in the US, mainly weather related. Most of the volume impact is at networks where revenues are not yet decoupled, and the profit benefit should be retained for the full year.

Coinciding with the results is the publication of Administrative Law Judges' (ALJ) recommendations in the crucial ongoing Niagara Mohawk rate case (which represents c25% of Grid's US business). The suggestion is that NiMo be allowed additional revenue of only \$99m and an ROE of 9.3%, well short of what would be considered an acceptable outcome – i.e. an ROE closer to 10%. However within the report there are possibly positive proposals for revenue decoupling and tracker mechanisms. Nevertheless, although there is still opportunity to argue the case before the final decision in January, this recommendation carries some weight and appears very disappointing for National Grid. The rate case is not over yet, however, and even in the absence of any concessions from the Commission in January, National Grid could possibly alter its divisional expenditure plans to mitigate the shortfall.

Bayer – The highly anticipated details of the ROCKET AF (atrial fibrillation) study where released early last week during a scientific section of the American Heart Association. The study, which covered the efficacy and safety profile of Xarelto (rivaroxaban) in stroke prevention in atrial fibrillation (SPAF), included over 14,000 patients and concluded that the new drug efficacy is superior to the current treatment standard (warfarin), while its safety profile (bleeding rates) are similar. The details helped assess Bayer's drug efficacy and safety profile to the one of Pradaxa, a competing drug by Boehringer Ingelheim, approved recently by the FDA for the same indication. While the methodologies employed for the two competing drugs make the comparison difficult, Xarelto's clinical benefit is perceived to be somewhat better, as it requires once a day dosage compared to Pradaxa's twice daily dosage and it had significantly fewer cases of myocardial infarction. Peak sales estimates for Xarelto have been upgraded by industry analysts in most, the drug being expected to generate €4bn-€6bn in peak sales.

Bayer announced a €1bn restructuring plan which would include cutting 4,500 jobs while creating 2,500 new jobs in emerging markets (hence a 2,000 net jobs reduction) and the proceeds of which would be used to finance the expansion of growth activities, including developing and marketing new medicines as well as pesticides and genetically modified seeds. The company also emphasised its intention to strengthen its position in emerging markets, where it benefits already of significant brand notoriety due to its leading consumer healthcare products.

Siemens – The company revealed that, together with its venture partner, Nokia, is targeting a possible IPO of the Nokia Siemens Networks (NSN), one of the top three telecommunications gear



suppliers worldwide. The venture has been struggling to keep up with the market leader Ericsson and the aggressive Chinese vendor, Huawei. The two joint venture partners tried to sell a minority stake in the business earlier this year with little success. NSN is a non-core business for Siemens, being reported outside of its sectors. The company's stake in the venture is estimated at about €5bn - €4bn.

POSCO – POSCO announced the investment of \$1.4bn in a new hot-rolled steel plant in South Korea. The construction is set to start in 2011 and production is set to kick in 2014. The plant is estimated to have a production capacity of 3.3mm of hot-rolled coils.

POSCO revealed plans for a new galvanized steel plant in China with a 450,000 tonnes capacity targeted at supplying the booming Chinese automotive industry. The plant is expected to be completed in 2012 with production set to begin in 2013.

Carrefour, Tesco – Casino of France came first in the race to acquire Carrefour's Thai assets, which involved several global and regional retailers over the last few months. The sale raised €68m for Carrefour, well in excess of the original expectations. The sale is also a de facto upgrade of Tesco's Thai business, the British chain being the market leader in Thailand. Tesco was also one of the bidders who had made it to the second round of the negotiations. Following the sale, Carrefour announced it put on hold the sale of the Malaysian and Singaporean stores, as the price offered did not meet the seller's exigencies. Carrefour is in a process of divesting assets in markets where it does not hold a leadership position as it intends to focus on the core European markets, as well as on the fast growing Brazilian and Chinese markets where it has been present for decades and has a leading market share.

Novartis – Novartis' new CEO, Joe Jimenez, took the opportunity to present its strategic view of the company during a Strategy and Innovation Forum which the company held for its stakeholders. The company will be focused on maintaining its diversified healthcare portfolio (pharmaceuticals, eye care, generics, vaccines and diagnostics, consumer care), employing mainly a bolt-on acquisition approach. It estimates that its pharmaceutical pipeline will remain strong, with about 30 regulatory submissions being expected during 2010 to 2012. In the pharmaceuticals area the focus will be on specialty pharma and oncology, a model expected to increase value for stakeholders. The generics area will focus on biosimilars and first to market launches as more than \$64bn worth of sales biologics are expected to go off patent in the next 5 years. Productivity improvements are being targeted

across the divisions, while, at the same time a customer centric approach is being rolled out. The group plans to strengthen its position in fast growing emerging markets and develop significant businesses in China, Russia, Brazil and India.

BHP – Alcoa, backed by BHP, took the initiative of changing the way it prices its alumina contracts by eliminating the current link of the alumina price to the pricing of aluminum (usually a rate of 12%-14%). The company argues that the historical way of pricing alumina underpriced the commodity and it did not reflect the production and transport costs. The Platts alumina index is seen as the one likely to be employed under the proposed pricing system.

Economic Activity, Consumer and Business Conditions

US – The broader manufacturing and business activity indicators state-side were stable in the readings released last week. The industrial production was flat in October versus the month before, impacted largely by a poor performance of the utilities sector, as the weather was warm. The manufacturing sector improved in the month, helped by a rebound in the auto and durable goods sectors. The capacity utilization improved mildly in the month, to 74.8% from 74.7%, although slightly below the expectations, at 74.9%, and well below the long run average of low to mid 80%. The Leading Economic Indicators (LEI) issued by the Conference Board improved for the fourth consecutive month, encouraging for the overall economic activity, yet it should be emphasised that most of the growth is due to the recent Fed intervention (quantitative easing) which boosted equities and lowered bond yields. The LEI was up 0.5% in October, as expected.

The news on the inflation side was more worrisome as the prospects of price deflation are vividly present, with the producer price index decreasing 0.6% in October at the core level (excluding food and energy), despite a strong performance of most commodities, which act as raw materials to the industrial sector. This stands as a proof of the amount of slack in the economy the producers are not able to pass through the cost inflation to the downstream sectors. The situation is not much different at the consumer level, with the consumer price index (CPI) core (excluding food and energy) flat for the month of October, and down to the 0.6% year on year rate of change, the lowest rate on record (since 1958).

The US housing sector indicators point to a slow, yet much needed, recovery. The National Association of Home Builders



(NAHB) Housing Index inched higher to 16 in November, from 15 in the previous month, with the 'expectations' component and the traffic of prospective buyers improving in the month. The US housing starts retreated in October, to 519,000 units annual rate, from the revised September figure of 588,000 units annual rate, chiefly due to a drop in the volatile multi unit category. The building permits actually improved in October, up 0.5% to 550,000 units annual rate, marginally less than the expected 570,000 units annual rate.

Canada – The Canadian Leading Indicators index change was positive, up 0.2% in October, better than expected, a sign that the pace of economic growth could pick up after a milder performance recently. The inflow of net foreign investment surprised on the upside in September, exceeding CAD12bn, as foreigners piled money into Canadian securities, mainly bonds. Needless to say, such a development is welcome given the weakening state of Canadian's balance of trade recently.

Ireland: On Sunday night European finance ministers agreed to a request from Ireland for a multibillion-euro emergency rescue. The bail-out is expected to total €50bn-€60bn and will include contributions from the UK and Sweden. The deal may not be concluded until the end of November because the parties are still negotiating the conditions. Irish finance minister (Lenihan) declined to disclose the interest rate the country would have to pay on any EU-IMF loans, but said it would be "a lot less than what we have to borrow at if we went to the world markets". Irish Prime Minister (Cowen) said in a statement last night that Ireland's corporation tax (currently 12.5%) had not come up as part of the negotiations. The package will include a fiscal package on the national budget that would see increased taxes, reduced spending and effective nationalisation of the banks whereby they become "significantly smaller than they have been in the past, so that they can gradually be brought to stand on their own two feet once more," according to Prime Minister Brian Cowen. Ireland now faces at least four more years of deep budget cuts and tax hikes totaling at least Eur15 bln just to get its deficit (32% of GDP) back to the eurozone's limit of 3 percent by 2014.

Portugal sold EUR 750m of 12m bills last week at an average yield 4.813% up from 3.26% just two weeks ago. The auction was covered 1.8x vs 2.2x previously. They also announced that the unemployment increased to 10.9% from 10.6%. In our view Portugal's Public finances are in nowhere near as bad a state as Greece, and the Portuguese banks are in much better state than Irish counterparts. However, we note that Portugal is particularly exposed to negative market sentiment given its front-loaded debt profile. The State is due to issue EUR1.0-1.5bn debt in two

auctions on 1st and 15th December 2010. Next year the country has EUR27bn of debt maturing (c.20% total outstanding), with c.EUR10bn coming in 1Q11 (Bloomberg data). The Portuguese banks also have a relatively front-loaded debt maturity profile.

Greece : the Greek government has unveiled an austerity budget that aims to cut its 2011 public deficit to 7.4% of the nation's annual economic output or GDP. If achieved, this would mean a 5bn-euro (\$6.8bn; £4.3bn) reduction on Greece's projected 9.4% deficit for 2010. Under the budget plans, the government will cut health and defence spending, and increase the sales tax on most retail items from 11% to 14%.

Spain is going ahead with its broadly criticized and controversial pension reform, as Government plans to raise the age of retirement to 67 from 65. The timeframe for this is that the Govt will compile recommendations from the main political parties by the year end and begin consultations with unions and companies in January to pass the bill by April 2011.

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 2.31% and the U.K.'s 2 year/10 year treasury spread is 2.30% - 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 (156 to-date in 2010) exceeding 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 at 4.39% - (the lowest rate since the Federal Reserve began tracking rates in 1971 was 4.17% on Nov. 11, 2010), as the Federal Reserve effectively continues to seek to incentivise home ownership. Existing U.S. housing inventory has increased to 10.7 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 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 mortgage foreclosures have been properly documented, thereby enabling mortgages to be “put back” to the originating bank. However, from recent bank investor relations presentations it does seem the rate of “put backs” are now expected to decline, suggesting current levels of provisions should suffice. 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 19.3 and 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

Market Commentary



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