Market Commentary

PORTLAND INVESTMENT COUNSEL™

January 11, 2010

News Highlights on Current Holdings

- Kraft Foods announced that it has agreed to sell the assets of its North American pizza business to Nestle for a total consideration of $3.7B. The company estimates that its pizza business generated 2009 net revenues of $1.6B under US Generally Accepted Accounting Principles. The sale, which is subject to customary conditions including regulatory clearances, includes the DiGiorno, Tombstone and Jack's brands in the United States, the Delissio brand in Canada and the California Pizza Kitchen trademark license. It also includes two Wisconsin manufacturing facilities and the right to take on the leases for the pizza depots and delivery trucks. Kraft Foods anticipates that approximately 3,400 employees will transfer with the business to Nestle. The transaction is expected to close in 2010.
- Siemens is in process of divesting its hearing aid unit, which is expected to make €170m of earnings before interest, taxes, depreciation and amortization (EBITDA) during the 2010. The business unit is operating in a very strong growth industry, but is up against strong competition from Sonova Holding and William Demant Holding and has trailed the two companies in terms of both revenues and margins. The sale is likely to fetch upwards of €2B, with six interested parties, including Bain Capital, Hellman & Friedman and KKR, in the run-up, while UBS is advising the sale. Danaher Corp. and P&G have pulled out of the race.
- On January 4th Barclays confirmed the completion of its £226m takeover of Standard Life Bank. The deal, announced in late October, will boost deposit balances for the Group by 6% and mortgages by 10%.
- IntesaSanpaolo, Credit Agricole - Last Thursday, the Italian antitrust regulator ordered Cred Agricole's stake in Intesa Sanpaoloto (ISP) be cut to below 5% by February 22nd, from the current 5.41% (according to BloomBerg). Previous speculation had been that Credit Agricole may ultimately need to go to below 2% in ISP. If the BloomBerg information is correct and up-to-date, this would require the sale of ~48.7mn shares over the next 6 weeks (vs last 6M average daily volume of ~66.3mn shares). In 2006, when the antitrust authority approved the merger that created IntesaSanpaolo, one of the stipulations was that Credit Agricole had to reduce its stake in ISP to below 5% by January 1st 2008, and to <2% by end-2009, although last night's release said that the stake should only have been cut to <5% by the end of '09.
- Unicredit has received the authorization to publish its prospectus for its €4bn rights issue. The terms will be 3 new shares for 20 existing, with new stock at €1.589. This gives a current Theoretical Ex Rights Price (TERP) of ~€2.285, making subscription price a ~30% discount to current TERP, which is inline with recent speculation and vs the ~27% discounts we saw at BNP Paribas, Soc Gen, DnB etc. Rights will be trading in Italy from Jan 11th-Jan 22nd. The new capital is expected to add about 70 basis points to Unicredit's core capital ratio, bringing its Tier 1 ratio to about 8.4%.
- Aberdeen Asset Mgt will pay £84.7mn for around half of RBS Asset Management (focusing on the funds of funds businesses, with £13.5bn AuM as at 30th September, annual revenues of ~£22mn, and annual operating profit of ~£10mn). Expected to be completed in 1Q10. Aberdeen will place ~84mn shares to help fund this... We see it as a sensible move by a company that has underperformed in anticipation of a move. Earnings neutral and increases total FuM by ~10%. Placing 84mn shares at market levels raises more than needed due to strong investor demand. We see this as a positive. Aberdeen have also announced an interim statement, with AuM at the end of December at £144.1bn (-1.4% in 4Q09).
- Santander continues with the rationalization of its hybrid capital, by this morning announcing a cash bid on €2.5bn of subordinated and other perpetual bonds issued by the bank (and its Abbey and Alliance & Leicester subsidiaries). The Impact is expected to be small and any potential gain will be used to strengthen the balance sheet. In 3Q09 and 4Q09, Santander bought back or exchanged different Tier1, Tier2 and securitization bonds, generating ~€825mn of gains that will be applied in 4Q09 together with other gains generated from the Initial Public Offering in Brazil (€1.5bn) and other minor disposals to refill generic provisions in Spain and increase reserve coverage for RE assets.
- Separately, Santander sold its Venezuelan subsidiary in 2009 so this weekend's 50% devaluation of the Bolivar should have no impact. For BBVA, Venezuela represents ~5% of group profits, before any currency hedges, the devaluation could cost BBVA ~2.5% of 2010 profits but have an impact of probably less than 10 basis points (i.e.0.10%) of capital.
- Wells Fargo Advisors LLC has introduced a new rewards program in its deferred-compensation plan. This effort by Wells Fargo is to get its advisers to focus on snagging more of their existing clients' assets, along with new clients. Until Jan. 1, the firm's 12,000 advisers were eligible for a bonus based on growth in revenue. Now the bonus will be based on bringing in new assets. Apparently, the minimum amount of net new assets to qualify for this award is $500,000, and the

incentive is 2% of an adviser's total revenue. The award is also partially based on the tenure of the adviser.

Economic Activity, Consumer and Business Conditions

A series of economic indicators issued last week highlighted that the current recovery process remains fragile with significant hurdles yet to be passed. While the manufacturing environment has improved significantly stateside supported by the inventory build-up from historically low levels, the consumer sector is still very weak: some 84k jobs were lost in December albeit the numbers were revised and improved for November – with 4k jobs gained rather than 11k lost as originally reported. Real income remains stagnant and the housing is expected to soften over the next few months as indicated by the pending home sales numbers which were down 16% in November. And consumer credit has contracted for the 9th consecutive month which ultimately augurs well for a society that needs to deleverage before it can stage a stronger based recovery. In Canada last week the Ivey Purchasing Managers Index dipped below 50, from 55.9 at 48.4 for the month of December, indicating contraction in the manufacturing sector. However this is significantly higher than the December 2008 reading of 39.1. The employment numbers, indicating a loss of 2.6k, while not reassuring, provide a support level from which expansion could be initiated.

Financial Conditions

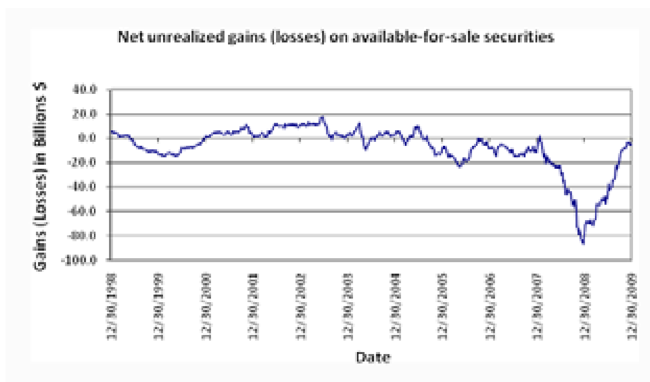
Worldwide, the improvements in financial conditions are providing support for a rebound in the economic activity and an upgrade in the business conditions.

Policymakers continue to accommodate a recovery in bank profits. The U.S. 2 year/10 year treasury spread is 2.87% and the U.K.'s 2 year/10 year treasury spread is 2.81% - 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 (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.

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 amended Federal Reserve Stats for large domestically chartered commercial banks in the US shows that the quantum of net unrealized losses on available for sale securities peaked in December at -$87.4 billion …improving to -$21.7 billion by end September and as at December 30 was reported as -$5.4 billion (see chart below). The pricing of these securities will in our view become increasingly volatile as liquidity now drives more normalized prices but the positive trend is much welcomed. The writing back up of these assets feeds through to the book value and endorses the strategy of many large financial services companies to hold rather than trade such assets.



The VIX (volatility index) is 17.0, 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. And credit default swaps across most leading financial companies are trading in a gradually improving range of 1%-2% (compared to 5%-7% late September/early October).

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Cash on Sidelines – we understand that US money market funds as % of market cap are currently 25% versus 18% long-term average.

We believe the largest impediment to a sustainable rally remains government intervention, not the global economy.

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.

Spreads on the closed-end funds are narrowing but remain wide and so in our view are very attractively priced to purchase.

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.

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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