Market Commentary

PORTLAND INVESTMENT COUNSEL™

December 20, 2010

AIC Global Financial Split Corp: Proposed change of termination date and Preferred Share's quarterly distribution

Manulife Asset Management has announced that it is to seek shareholder approval to extend the termination date of AIC Global Financial Split Corp from May 31, 2011 to May 31, 2016. Also, a quarterly distribution in the amount of $0.13125 per Preferred Share will be paid on January 13, 2011 to Preferred shareholders of record as of December 31, 2010

Copernican World Financial Infrastructure Trust: commencing quarterly distributions

Copernican World Financial Infrastructure Trust has announced that the Trust is to reinstate a cash distribution that will be paid quarterly in the amount of $0.05 per unit. The distribution will be paid on January 13, 2011 to unitholders of record as of December 31, 2010.

Copernican World Banks Split Inc.: Preferred Share's quarterly distribution

Copernican World Banks Split Inc. has announced that a quarterly cash distribution in the amount of $0.13125 per Preferred Share will be paid on December 31, 2010 to Preferred shareholders of record as of December 31, 2010.

Copernican International Financial Split Corp.: Preferred Share's quarterly distribution

Copernican International Financial Split Corp has announced that a quarterly cash distribution in the amount of $0.125 per Preferred Share will be paid on January 13, 2011 to Preferred shareholders of record as of December 31, 2010.

News Highlights on Current Holdings

Financial Services Companies

Royal Bank of Canada's debt and deposit rating was downgraded from Aaa to Aa1 by Moody's. S&P already has the bank on AA-. This leaves its smaller rival Toronto-Dominion as the only Canadian bank, and one of less than half a dozen worldwide, that still enjoys the blue-ribbon ranking. In lowering the rating to Aa1 last Monday, Moody's said the move had been prompted by the bank's growing international capital markets business "which potentially exposes bondholders to increased earnings volatility and poses significant risk challenges".

Bank of Montreal (BMO) has announced it will acquire Marshall & Ilsley Corporation (M&I) for US$4.1 billion in a stock-for-stock deal. In conjunction with the transaction, BMO will also repay US$1.7 billion in preferred shares, accrued and unpaid dividends, as well as outstanding warrants issued as part of the Troubled Asset Relief Program (TARP). To support the repayment of TARP and maintain its strong capital ratios, BMO will issue Cdn$800 million in BMO common shares. Given we believe CIBC's existing U.S. platform (Harris Bank) is strategically disadvantaged (size and scale) it was thought possible that BMO would contemplate a transformational acquisition – but this will involve integration and execution risks on a relatively large scale. BMO's US returns have struggled to date to exceed its cost of equity and so BMO's management credibility will be tested, in much the same way as TD bank continue to need to demonstrate that their expansion into US retail will in due course deliver acceptable returns.

Barclays' CEO designate Bob Diamond bought £1mln of Barclays stock last week according to stock exchange filings.

Credit Agricole Group, outlined a fresh 10-year growth plan focused on universal retail banking, as French banks turn to less risky operations to drive growth in the aftermath of the financial crisis. Signaling a return to its roots after pushing into investment banking and international expansion in recent years, the group of 39 French cooperative regional banks said it plans to strengthen its universal banking model in France and abroad through organic growth and synergies from its various businesses. "We want to become the universal retail banking leader in Europe," Jean-Marie Sander, Credit Agricole SA's chairman, told reporters. Credit Agricole Group didn't disclose any specific targets for its plan. These are expected to be presented in March, when the bank is due to disclose its strategy for the next three years. Credit Agricole's CEI Jean Paul Chifflet said he sees the bank's Greek unit being profitable by 2012. Chifflet also confirmed that he has no plans to sell the bank's stakes in Bankinter or Banco Espirito Santo.

HSBC - Fitch has upgraded HSBC's rating to A/B from B. The upgrade reflects the easing pressures on earnings and asset quality driven by the global economic recovery.

Lloyds Bank have issued a trading statement flagging higher bad debts in Ireland in 2H10. After a further review it is likely to see a further 10% of Non Performing Loans in its Irish loan book by y/e 2010 compared with 1H10. This will take the Non Performing Loan ratio to c.54% (was 44%). At the same time they are increasing the bad debt cover to 54% from 42%. The net result is to increase Irish bad debts in 2010 to £4.3bn or by c.£1.4bn more than the market had been expecting. £1.4bn gross of tax would take 2.2p from the approximate 2010 Tangible book /Net Asset Value of 63.4p. While Lloyds are not giving guidance for next year (this will come at the results), in our view we think that it is effectively pulling forward bad debts from 2011 and 2012 into 2010 which would mean earnings next year will be higher after bringing forward the phasing of the loss recognition.

Royal Bank of Scotland have sold their Chinese retail and commercial banking businesses to DBS Group. RBS will transfer close to 25,000 clients in Shanghai, Beijing and Shenzhen to DBS China, No amount was disclosed for the transaction, which is expected to be completed within six months. RBS has also agreed the sale of £3.9bn in non-core project finance assets to The Bank of Tokyo-Mitsubishi and other MUFG subsidiaries These deals are part of RBS' asset disposal program following their bailout.

Financial Infrastructure

Mastercard: announced the week before last, an agreement to purchase the prepaid Card Program Management operations of Travelex for $458MM (or up to $513MM if certain performance targets are met) in an all cash deal that is scheduled to close in 1H 2011. Management indicated that the deal, which will be financed using available cash, is expected to be $0.04/share dilutive to 2011 EPS, neutral to 2012 EPS, and accretive to 2013 EPS. Looking past the near-term financial implications (i.e. it would have been better to use the cash to buy back own shares a current process) we view this as a good strategic fit that should materially improve Mastecard's positioning in the high-growth prepaid market.

Interchange fees: new rules proposed by the Fed for a 7-12c outright cap would lower interchange fees by 80-90%, more aggressive than previous expectations for a 40-60% cut. The Fed's proposal will now be open to public comment and are expected to be finalized by the April 21 Dodd-Frank deadline. MasterCard has already criticized the Fed for essentially setting prices.

According to the Fed's research, debit and prepaid card interchange fees were $16.2 billion in 2009. The average fee for all debit transactions was $0.44 per transaction or 1.14% of the transaction amount. The average interchange fee for PIN transactions was $0.23 per transaction or 0.56% of the transaction amount. The average interchange fee for signature transactions was $0.56 per transaction or 1.53% of the transaction amount. The Fed's new proposal would limit fees to $0.07 to $0.12 per transaction for both PIN and signature in one scenario (plus fraud prevention costs of say $0.02) or simply cap fees at $0.12 per transaction in another scenario. We assume that fees fall in the middle at about $0.10 per transaction. This would result in a 57% reduction in PIN revenue and an 82% reduction in signature revenue. While the limitations are more severe than expected, interchange fees account for a relatively small percentage of revenue for large-cap banks like Bank of America, JP Morgan and Wells Fargo (less than 2 ½ %).

While the banks are the initial losers here in the transfer of wealth from them to the merchants, the consumer will also lose out, in our view, as they will get no benefit from lower interchange fees and will in due course end up paying higher fees elsewhere as the banks look for offsets. Again, the short term impact will be to make debit card transactions more expensive to handle (which would impact Visa and Mastercard's debit volume transactions – but not the fees they charge as such network costs are not part of interchange fees and so are unlikely to be reduced as a consequence of this proposal). However, ultimately we do not believe that this proposal will change people's spending habits – away from plastic and back to cash – as the cost of handling cash is likely to rise even more …and so the secular growth story for Visa and Mastercard remains intact, in our view.

Securities Exchanges: Divisions have emerged between three leading cash equities clearing houses in Europe over the likely pace of reform in the industry after regulators backed proposals to allow greater co-operation between clearing houses but stopped short of giving full approval. UK, Swiss and Dutch authorities have written to three of Europe's main central counterparties giving the go-ahead to inter-operate in a move which would potentially reduce the overall cost of trading in the region. The move is the clearest sign to date that regulators are prepared to accept that the process of 'interoperability' can move ahead. Interoperability has been pushed by the European Commission since 2007 as a way of allowing traders a choice of where their trades are cleared, spurring competition and lowering post-trade costs.

Dividend Paying Companies

BHP – BHP has announced it submitted the Environmental Impact Statement (EIS) for its proposed Jansen potash project to the Saskatchewan Ministry of Environment. BHP also awarded DMC Mining Services, a unit of Quadra FNX, a $400mm contract to develop two new mine shafts at Jansen. Consistent with its previously stated position of investing in its top quality (large reserves, long-life, low-cost) potash assets, the company is ramping up work at Jansen, which is being designed to produce approximately 8 million tonnes of potash per annum at full capacity, potentially the largest mine in the world. The proposed mine will operate for about 70 years and is expected to make substantial contributions to the local and the Canadian economy. It will be the first new potash mine built in Saskatchewan in nearly 40 years.

Carrefour/Tesco – Both Carrefour and Tesco are in the race to acquire Zabka, a Czech owned retail chain operating more than 2,300 stores in Poland and the Czech Republic. The deal is expected to raise more than €300mm for Penta Investments, a Czech private equity firm. Tesco is one of the leading foreign retailers in Poland currently.

Novartis – Novartis managed to strike a deal with Alcon's minority shareholders, agreeing to buy the remaining 23% stake for a combined share and cash offer valued at around $168 per share for a total of $12.9bn. The consideration includes 2.8 Novartis shares for each Alcon share, while the cash component would be added in order to bring the total value to $168 if necessary. At the current valuation, Novartis would have to advance roughly $900mm in cash.

At the same time, the company announced the resumption of a share buy-back programme, through which it attempts to remove the dilutive effect of the new share issuance over the course of the next two years. The conclusion of this agreement removes an overhang which affected the stock's performance ever since the Alcon purchase was initiated.

Alcon, known for its contact lens solution, a leader in the eye-care specialty market, will merge with CIBA Vision and form a new, second largest, Novartis division. The division is expected to cover over 70% of the global vision sector and will be headed by the current Alcon CEO, Kevin Buehler. Annual cost synergies of $300mm are penciled in by the company management.

Siemens – Siemens entered an agreement with Atos Origin, a French management consulting firm, to off-load its Siemens IT Solutions and Services (SIS). The deal keeps Siemens involved, including a 7 year outsourcing contract worth €5.5bn to Atos Origin. The consideration for the Siemens division is reportedly €850mm.

Syngenta – Syngenta and DuPont announced a licensing agreement through which DuPont will gain access to Syngenta's leading below-ground coleopteran insects control technology MIR604 (Agrisure). The deal could potentially add more than $400mm to Syngenta's top line.

TOTAL announced an alliance with Suncor to develop oil sands properties in Alberta. The deal will cover Suncor's Fort Hills project and the Voyageur upgrader and TOTAL's Joslyn project. The current operator will hold a 51% stake of the combined share. In our view, the alliance with Suncor is a positive move, especially should oil prices move back up over $100/bbl, as oil sands are an attractive resource, offering long term, stable, production with minimal maintenance capex requirements. Combining with Suncor can also lower costs & aid development. The deal supports, in our view, the long term growth story for TOTAL. While other companies are struggling to see upstream production growth beyond 2015, TOTAL has projects that can supply growth out beyond 2018.

Economic Activity, Consumer and Business Conditions

US – Mildly positive news coming out of the manufacturing sector stateside over the last week show that the recovery continues in the sector, despite a number of prior gloomier predictions. The industrial production improved by 0.4% in November versus October, beating expectations of a 0.3% increase, supported largely by an improvement in the business equipment spend. At the same time, the capacity utilization improved to 75.2% versus expectations of a 75% level and October's level of 74.8%, still well below the historical average of low 80s. The US Leading Economic Indicators (LEI) Index by the Conference Board, improved by 1.1% in November, as expected, a higher rate of improvement than in most recent months, including October, in which the index rose only 0.5%.

The all-important US consumer sector got another boost in November, with the retail sales up 0.8%, exceeding the expectations of a 0.6% improvement. The retail sales excluding sales of motor vehicles and parts rose by 1.2%, well over the expected 0.6% rate, as sales of sporting goods and clothing took off in the month. However, we believe the current record weight of the consumer sector in the country's economic make up is unlikely to be sustainable in the long run, in particular in the absence of real income and credit growth.

The US consumer price index (CPI) grew at a 1.1% yearly rate in November, while the core rate registered a 0.8% value, which, while low, is of less concern than the October's record low 0.6% rate.

Canada – The country economic observers and regulators are finally coming to the realization that the Canadian households are overstretched compared to most other countries including the US ill-famed counterparts. The Canadian household debt is sitting at 146.7% of the disposable personal income, while the US households, after gradually reducing their leverage over the last three years, are at the 117.6% mark. Mark Carney, the BoC governor, is encouraging households and businesses to show prudence and avoid the mistakes that others have made in being seduced by the idea of 'living with low [interest rates] for too long'.

The Canadian labour productivity improved a meagre 0.4% annual rate in the third quarter of the year as the country's GDP is crawling at a 1% annual rate of growth, while the employment is recovering.

Financial Conditions

Irish Bailout - Irish MP's voted last week to accept EUR67.5 bln in loans from the EU and IMF as part of an EUR85 billion package to shore up Ireland's stricken banks and public finances. It was far from a landslide majority with 81 to 75 MPs in favor of accepting the aid.

ECB - The European Central Bank announced last week that it is increasing its capital to €10.76bn from €5.76bn to help it better offset risks as the volume of its financial activities grew. National central banks will supply the additional capital in three annual installments, starting Dec. 29. The ECB will use its own profits to help in the financing, leaving the central banks to pay €3.5 bn over three years.

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 2.69% and the U.K.'s 2 year/10 year treasury spread is 2.32% - 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 (157 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 4.83% - (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 16.11 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.

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