Market Commentary

PORTLAND INVESTMENT COUNSEL™

January 31, 2011

Recirculation of shares in Copernican British Banks Fund (CBB.UN)

This fund is in the process of going through its annual redemption which is to be paid on February 22nd to shareholders who have submitted their Units for redemption in January. 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 prices which are net of the current retraction fees ($0.40) and brokerage fees, commissions and other costs which need to be settled on or before the payment date for the redeeming unit holders.

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 a very attractive discount to the underlying net asset value.

We expect to initiate and conclude this recirculation process during early-mid February and have attached the Q4 Update.

News Highlights on Current Holdings

Financial Services Companies

AGF – reported Q4/10 fully diluted operating EPS of $0.34 compared with consensus of $0.35. The wealth management business, and its ability to generate flows, remains key to long-term value creation at AGF. Fund flows continue to be challenging and the competition for sales remains intense as larger operators (i.e., the banks) continue to gain market share.

American Express reported 4Q10 diluted EPS from continuing operations of $0.88 versus consensus of $0.97/share. Reserve releases from its lending portfolio totaled $614 million (or $0.33 per share). Excluding the impact of these releases and $0.06 of restructuring and reengineering costs, the "core" EPS was approximately $0.61. The miss was driven by higher-than-expected operating expenses, as top-line total revenues net of interest expense probably exceeded consensus.

Axa Asia Pacific won an Australian court's approval for a meeting of shareholders and rights holders to vote on a A$13.3 billion ($13.2 billion) takeover by Axa SA , France's biggest insurer, and AMP Ltd. Victoria Supreme Court Judge Clyde Croft approved Axa Asia's request for the meeting in a decision published last week on the court's website. "There is no undue risk to minority shareholders or rights holders," Croft said in the 17-page ruling. "The schemes, if considered and adopted by the shareholders and rights holders, are schemes that the court would be likely to approve."

Bank Sarasin & Cie AG said it will offer yuan investment products, including certificates of deposits and bonds denominated in the Chinese currency, to its private banking clients in Hong Kong,

BBVA - Venezuela's President Hugo Chavez said he doesn't plan to nationalize the local unit of Spain's second-largest bank after threatening to do so on Thursday.

HSBC's new Chief Executive has dropped plans to relocate to Hong Kong, choosing to remain in London….. although it is anticipated he'll spend an average of 2 weeks a month in UK, one week in Hong Kong and a week travelling to other parts of the group's global operations.

Spanish weaker savings banks have been ordered to raise more capital or face nationalization in an effort to restore confidence in the Spanish economy. The Spanish Ministry of Finance estimates an additional Euro 20 billion (US$27 bn) will be required and is ideally to come from the private sector rather than the state. The threshold is for all banks to hold a minimum core capital ratio of 8%.... which appears higher than the Basel 111 requirement of 7%. The stronger banks Santander and BBVA already exceed this threshold.

Barclays is expected to pay a lot of its bonuses in the form of debt that converts to equity if the banks gets into serious trouble…. Known as 'Co-Cos' (continuous convertible bonds). Unlike bonuses denominated in shares, Co-Cos offer no upside gain –rather aiming just to pay out in whole at maturity and so would align the bankers' interests with bondholders rather than equity investors … capital preservation would therefore gain increased attention…. In turn making the banks safer.

Royal Bank of Scotland: Some w/e press that RBS bosses believe the govt. could start selling their £46bn stake in the bank early next year. RBS chiefs believe the bank will be delivering sustainable profits by year-end and hope the chancellor will start the sell-off if market conditions are right. Some say a first tranche of about £5bn could be offered. A September report by Sir John Vickers, leader of the Independend Commission on

Banking's review of the sector, and the government's response, will set the terms for a privatisation programme for RBS and Lloyds and suspect no decision is likely to be made until then.

Unicredit/Intesa: The idea of a merger between UniCredit's and Intesa Sanpaolo's asset management units seeming to be gaining traction. The possible merger of Pioneer (UniCredit) and Eurizon (Intesa Sanpaolo) would create one of the largest asset managers in Europe with €327bn AuM, of which €241bn in Italy, €34bn in the US (this business is likely to be sold); €23bn in Germany, €11bn in Austria. Estimates are of a pro-forma net income of €298m in 2010e (€358m in 3011e) and a market value of the new combined entity of c. €6.0bn. A listing of the new group could take place in 2H11. .

Financial Infrastructure

The Singapore Exchange has secured $3.7bn in funding to help pay for its proposed takeover of the Australian Stock Exchange, ASX Ltd. The consortium of six banks lending to the Singapore Exchange are led by Australia & New Zealand Bank and also include National Australia Bank. The Australian dollar debt ($750mn) is priced at 75bps over the local cost of borrowing for the three-year debt and 101bps for the five-year debt, in line with margins that AA-rated banks can achieve in the domestic market.

Fidelity National Financial: reported 4Q10 GAAP EPS of $0.58 after the market close that, after backing out non-operating investment gains and adjusting for a lower than expected tax rate, looks more like operating EPS of $0.38, still well above the consensus estimate of $0.30. Operating results benefitted from higher than expected closed orders and a q-o-q increase in the fee per file, lifting revenues after backing out investment gains. As a result of the significant earnings beat, FNF declared a $0.12/shr quarterly dividend. In addition, management added 5 million shares to its current share repurchase authorization. However, because opened orders were lower than hoped it serves as a reminder that the outlook for 2011 remains very challenging. Longer term, we like the ability of management to generate significant earnings leverage when mortgage activity picks up, but believe a moribund mortgage market could frustrate for most of 2011 – keeping us on the sidelines of this stock.

Dividend Paying Companies

ABB – ABB announced the successful completion of the tender offer for the common stock of Baldor, a US company leading the field of industrial motors. At the expiration of the offer, 89.38% of Baldor's outstanding shares had been tendered and not withdrawn to Brock Acquisition Corporation, a US subsidiary of ABB. ABB will acquire the remaining Baldor shares for $63.50 and Baldor will be de-listed in US. The total value of the transaction is estimated at $4.2bn, including the assumption of $1.1bn of Baldor's debt. The addition of the strong industrial motor franchise fits well with ABB's strategy of increasing its footprint in North America, while presenting significant cross selling opportunities with its existing industrial automation and process automation businesses. Following this transaction ABB employs approximately 17,000 in North America.

Novartis – Novartis announced Q4 and full year results last week, with sales for the last quarter mildly ahead of the consensus, while the core operating profit and the core earnings lagged the expectations on headwinds from the healthcare reform and weaker comparative vaccine sales. By division, the pharmaceuticals were in line, with robust new product growth offsetting the erosion of the off-patent drugs, the Sandoz generics business had a weaker quarter on a tough European environment, while the newly acquired Alcon (eye-care) was stronger. The 2011 guidance is strong, the company targeting double digit sales growth, mainly as a result of the Alcon integration, as well as higher group operating profitability. Initial market up-take of its new drugs, in particular the oral multiple sclerosis pill Gilenya, has been solid. The company is initiating a $5bn buy-back programme aimed at partially offsetting the dilution caused by the Alcon's minority squeeze-out.

Siemens – Siemens' first quarter results came in way ahead of consensus as the German engineering giant benefited from very strong performance in its short cycle industrial automation business as well as in its fossil power business. Earnings per share of €1.95 beat by a large margin the expected €1.61 result, while the new order registered a 13% constant currency year on year new orders improvement, with the book-to-bill ratio improving to 1.16x from the 1.09x value a year ago. Revenues were 6% ahead in the quarter compared to the year ago performance, while the income from continuing operation improved by 17% over the same time period. Cash flow improved as well, partly helped by the divestiture of minority stakes in Krauss-Maffei Wegmann and Gigaset. Notable new orders came in the mobility division from UK, Norway and Germany, while the fossil power business benefited from orders out of India, Oman and South Korea. The largest onshore wind order for Siemens (593MW) arrived from MidAmerican Energy in the quarter. The company guided for continued improvement in the organic order intake, which would support a moderate rate of organic growth in revenues. Income from continuing operations is expected to exceed the 2010 results by 25% to 35%. Management did not rule out the possibility of a distribution as the company is moving toward a more efficient balance sheet, but said it would more likely be closer to the end of the fiscal year (i.e. September 30).

Fortum announced that it has reached a preliminary agreement to divest its 25% stake in Fingrid, Finland's transmission system operator, for EUR 325m. Fortum expects to book a EUR 200m capital gain (EUR 0.22 per share) from the transaction, which is expected to be completed during H1 2011e. Fortum's stake is being acquired by the Finnish state (81%) and pension fund Ilmarinen (19%), both of which are existing shareholders in Fingrid. The price achieved appears in our opinion a good deal for Fortum given it was under a deadline to sell this stake by March 2012 and as Fortum has a tradition of distributing capital gains from large divestments as extra dividends we should expect an increased payout this year.

SK Telecom reported revenue of W12.5tn (+3% YoY) and net income of W1,411bn (+10% YoY). For 4Q10, SKT reported revenue of W3.2tn (+2.3% YoY), and net income of W361bn (+47.8% YoY). Net income topped consensus estimates mainly due to a pre-tax gain of W145.8bn from the disposal of SKT's 4.9% holdings in SK C&C on 8 October 2010. Adjusting for this one-time item, SKT's net income would have come in at W1,300bn for the year, representing +1.0% YoY growth. Marketing expenses rose 3% YoY in 2010. During the conference call, the management team indicated that it will adhere to this year's guideline of 20% spend on marketing. SKT currently has 3.9mn smartphone subscribers, and is targeting to increase the figure to 10mn by the end of this year by launching 30 different models. To diffuse exploding mobile data growth from smartphones and tablet PCs, SKT is targeting 45k Wi-Fi hotspots. During the 4Q10 conference call, management reiterated its shareholder return policy of W9,400 in DPS for the full year 2011E, current dividend yield is 5.6%.

Wesfarmers is a diversified industrial company operating in several divisions including Hardware,Coal & Energy, Industrial & Safety, Insurance,Chemicals & Fertilisers, and investment activities such as Gresham Fund management. Since listing in 1984 as a WA Farmers Co-Op, WES continues to evolve through corporate activity. The c.$20b acquisition of Coles Group is accelerating the transformation of Wesfarmers into Australia's largest retail company.

Wesfarmers has battled with the Coles acquisition for a number of years. However, the outlook is significantly more positive than it was 12 or so months back. In 1Q11, Coles grew sales (in absolute terms) by $331m compared to its major competitor Woolworths' sales growth of $291m. Coles therefore outgrew Woolworths in absolute sales by $40m in 1Q11... which followed Coles outgrowing Woolworths by $21m in 4Q10 (4Q10 being the first time local analysts can recall Coles outgrowing Woolworths on an absolute sales basis). In 2Q11, Coles grew absolute sales by $443m compared to Woolworths' growth of $338m...with the gap between Coles and Woolworths absolute growth widening to $105m. The above sales growth differentials also need to take into consideration that Woolworths has 19% more trading space than Coles, and that Woolworths increased its trading space in 1H11 by just over 2% compared to Coles not increasing trading space at all. Coal markets are also looking materially more positive. We believe that Wesfarmers is now at the cusp of strong earnings growth for a lengthy period of time.

Economic Activity, Consumer and Business Conditions

US – The US Q4 GDP preliminary reading came in shy of the expected 3.5% annualized rate of growth, at 3.2%, driven largely by the consumer expenditures and the change in net exports. The change in inventories actually subtracted significantly from the growth. The final sales indicator moved higher by 7.1% annualized rate in the quarter, one of the higher rates in decades. The question is if such sustained rates of growth are to be expected going forward, with the consumer expenditure under the pressure of a high rate of unemployment and the net exports dependent on growth rates outside of the US.

The manufacturing sector stateside continues to show signs of life, with the durable goods orders excluding transportation up 0.5% in December, yet below expectations of a 0.8% improvement. The headline number came in at -2.5%, unexpectedly low compared to expectations of a 1.5% improvement.

Impressive new housing sales moved the annualized number of units sold to 329,000, a more than 17% improvement compared to November, yet still not too far from historical lows in relative terms. The housing starts for December were down to 529,000 annualized units from November's 553,000 figure, while the S&P/Case-Shiller 20 city composite retreated to 143.9 in November from the revised 145.3 the month before.

Earlier today the Personal Income and Outlays by the Bureau of Economic Analysis revealed a 0.4% improvement in the personal income, as expected, for the month of December. Noteworthy, the core personal consumption expenditures (PCE) price index, retreated to 0.7% in the month, the lowest since

1959, compared to 0.8% expectations. The core PCE is the Fed's preferred inflation measure and, for the time being, is way outside of Ben Bernanke's comfort interval of 1.5% to 2.0%, meaning that the Fed will continue its stimulatory stance for the foreseeable future.

Canada – Canadian GDP improved in November by 0.4%, beating expectations of a 0.3% improvement, helped by the retail sector, as well as mining and utilities. Manufacturing and construction were the key laggards in the composite. Earlier, on the inflation front, relatively benign readings, of 2.4% headline CPI year on year change and 1.5% core CPI year on year change, gave little reasons to worry to Canadian central bankers.

Britain's economy unexpectedly shrank the most in more than a year in the fourth quarter as construction slumped and the coldest December in a century hampered services and retailing.

The IMF have raised their global growth forecast from 4.2 to 4.4%.

Financial Conditions

The European financial stability facility last week raised the maximum allotted amount of €5bn in five-year bonds. The landmark issue, which could pave the way for a common eurozone bond, is proving even more popular than an EU bond deal, which priced this month and saw order books rise to €20bn.

European leaders are negotiating a "grand bargain" to overhaul the eurozone's €440bn rescue fund in exchange for tough austerity measures and closer oversight of debt-burdened member states. Officials involved in the negotiations say the deal could also include a revamp of both the Irish and Greek bail-outs to extend payment periods or cut interest rates on their bail-out loans. Some parts of the package remain highly sensitive and officials warned that a final deal may still be weeks away. No decisions are likely at this Friday's EU summit but leaders hope to complete the package by their subsequent summit, in late March

Egypt; International banks have lent $49.3bn to Egyptian borrowers with the UK and France having the most exposure. French banks have $17.6bn of exposure with SocGen the biggest individual lender with $5.6bn of loans outstanding. UK banks have $10.7bn of exposure (where HSBC has a significant local presence) and Italian banks $6.3bn.

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 2.80% and the U.K.'s 2 year/10 year treasury spread is 2.37% - 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 (11 in 2011) compared to 157 in 2010 which was the highest annual tally since 1992 (140 in 2009). 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 4.80% - (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 8.1 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 19.50 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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