Market Commentary

PORTLAND INVESTMENT COUNSEL™

February 14, 2011

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

The portfolio of securities for Copernican British Banks has risen since January month-end enabling the recirculation price to be at an attractive discount to the current net asset value, especially for investors intending to invest for longer than 3 years by when the retraction fee falls away completely. The recirculation of CBB.UN will commence today, closing no later than Wednesday 16th March. Its latest fund brief is attached. From January 1st 2011 the service fee was increased to 0.60% and it increases to 1% on 1st January 2014 at which time the Management fee reduces from 1.65% to 0.5% and the redemption fee is nil.

News Highlights on Current Holdings

Financial Services Companies

Manulife Financial (MFC) reported 4Q10 EPS of $1.00 which was below consensus estimate ($1.08). Net income was a record $1.8 B. Higher interest rates added $604 M; higher equity markets added $441 M. Adjusted earnings were at the low end of guidance at $692 M due to higher one time Deferred Acquisition Cost adjustments and lower earnings on surplus. MCCSR (Minimum Contingency Capital Solvency Ratio) improved to 249%. Overall, MFC's book value of $14.23 was off 9% Y-O-Y while AUM on a constant currency basis at $489B was up 11%.

Manulife materially reduced both its equity market and interest rate earnings sensitivity in the quarter. Sensitivity to 1% lower interest rates declined from $2.2 B to $1.8 B. Sensitivity to 10% lower equity markets reduced significantly from $1.3 B to $740 M. This provides downside protection that was lacking heading into the downturn and should provide lower earnings volatility going forward, likely benefiting its valuation over time. However, this new, lower risk Manulife comes at a cost. While the explicit cost of the hedging is a drag on earnings and is the largest component in missing expectations, it also limits the upside available to shareholders who have been invested in MFC over the full cycle or were looking for full upside potential.

MetLife (MET) reported operating EPS of $1.14 and core EPS of$1.08 compared consensus at $1.10. Book value declined to $43 or 3% sequentially. Business trends were mixed. Margins were robust in the individual life business but weak in the disability line. Variable Annuity sales were robust, but top line growth in the individual life, group life, disability, and corporate funding businesses was weak. International results were slightly short of expectations as well (for both ALICO and legacy MET units). Overall spreads were robust. Investment impairments were modest ($82 million) MET reported record variable annuity (VA) sales of $5.1 billion, which increased 38% from 4Q:09. Net flows in VAs also increased by 59% to roughly $2.7 billion, also a record. International top line (i.e., premiums, fees and other revenues) increased 75%, largely on the addition of 1 month of Alico.

Prudential Financial (PRU) reported 4Q operating EPS results of $1.78 vs. consensus of $1.48. Results included $0.22 per share from a DAC unlock and reserve releases in the Individual Annuities segment, and a $0.10 per share gain on the partial sale of the company's investment in China Pacific Group. Total book value declined 6.9% from 3Q10 to $63.11 as a result of higher interest rates and the recent equity raise. Variable annuity sales climbed to $6.1 bn in 4Q'10 vs. $5.4 bn in 3Q'10, and net flows were $4.2 bn vs. $3.7 bn in 3Q'10. This strength could reflect a sales surge ahead of the benefit reduction in January 2011. International sales increased 32% with double-digit growth across all channels led by the bank channel. Japan Life Planners increased by 3.5% from a year ago, adjusting for LPs seconded by the bank channel.

National Australia Bank announced strong 1st quarter 2011 cash earnings of circa $1.3bn; a bad debt charge for 1Q11 $493bn including $25mn for Queensland floods; and Tier 1 capital ratio 1Q11E 8.96%. This was a high quality headline surprise from NAB driven by better-than-expected core earnings (both revenues and expenses) with Australian consumer and business banking earnings relatively strong; positive revenue / expense "jaws" in 1Q11; and slightly improved Group asset quality (albeit slight deterioration in NZ and the UK). This bank's potential in 2011 relative to peers is that a fairly simple strategy of focusing internally and fixing impaired franchises can deliver further upside . Success in regaining share in Personal banking at profitable levels, delivering a return to more normal profit levels in its UK business through stabilising bad debts and higher front book margins, and running down its Specialised Group (noncore) assets sooner, are all key targets. Its Business Banking is also winning share in a low-growth climate and the asset-hungry Personal bank appears to be holding the line on margins.

Credit Suisse Group : Q4 2010 profit before tax, excluding non-controlling interests and fair value adjustments, came in at CHF1,471m, ahead of consensus. Key areas of outperformance included Wealth Management (CHF53m) and Asset Management (CHF80m). Wealth Management was driven by lower costs whilst Asset management reflected better revenues, which were up 6% on Q310. Key drivers were Performance fees and a CHF30m increase in Equity participations. Investment Banking was disappointing (-CHF75m). Advisory, Equity and Debt underwriting were all strong, but Fixed income sales and trading was very weak (Revenue CHF888m against CHF1,458m in Q310). The dividend was CHF1.30 per share compared with CHF1.50 expectations. Finally, Credit Suisse highlighted a reduction in its target ROE from “above 18%” to “above 15%” in the light of a revised strategic plan which disappointed the market but in our view better reflects the reality of the Swiss banks in particular being required to hold significantly more capital post the financial crisis. Nonetheless, given that one-third of Credit Suisse’s capital is in Private Banking and Asset Management - which should generate 30+% ROEs - a 15% group ROE target would suggest an investment bank ROE below the group’s cost of equity and so ‘above 15%’ seems a relatively easy target to exceed as management understandably prefer to under promise and over deliver.

Credit Suisse has executed an agreement to issue and place CHF6bln of Tier 1 buffer capital notes, a form of coco’s (contingent capital). The agreement satisfies 50% of high trigger coco requirement under proposed new Swiss capital rules. The issue was placed with 2 investors, Qatar Holding and The Olayan Group. Also, Credit Suisse’s investment banking pipeline is “well filled,” Finanz & Wirtschaft reported, citing an interview with CEO Brady Dougan. Dougan also said he is “relatively optimistic” about the bank’s business this year, the newspaper said.

UBS reported pre-tax profit of CHF 1.2 bn compared to consensus of CHF 1.5 bn. Stripping out all of the exceptional items, including a negative fair value adjustment of -CHF 509m indicates an ‘underlying’ pre-tax profit of CHF 1.3 bn. At a divisional level Wealth Management and Retail & Corporate are both about 5-15% below expectation, with all other divisions broadly in line with consensus. In Wealth Management, net new money was break even (versus consensus at CHF 1.7 bn) while gross margin in private banking increased from 89 to 92 bps (in line with consensus). Importantly, in its outlook statement, UBS says that management expects client activity in the first quarter to be above the fourth quarter levels, supporting transaction based revenues in the private bank. Investment banking came in ahead of expectations (pre FV adj.), although this looks to have been driven primarily by a better cost performance. Revenue was a bit below expectations, with continued weak Sales & trading in both Equities and Fixed Income, Currency & Commodities only partially compensated by a very strong Equity capital markets performance. On the conference call, CEO Mr. Gruebel guided for a 100 bps gross margin already in 2011 (consensus at 94 bps). UBS continued to improve its capital ratios with a Tier 1 Capital ratio of 17.7% and Core Tier 1 ratio of 15.3% it is among the best capitalised banks in the world - falling to 12.7% pro-forma for Basel 2.5. UBS confirmed that Management does “not intend to pay a dividend for 2010 or for some time to come.”

Macquarie : announced that 2nd Half 2011 earnings were expected to be up 35% sequentially / down 5% on the previous comparable period, stating also that 3Q 2011 operating results were “significantly up” on the two sequential quarters, but down on the 3Q 2010 (with a weaker Macquarie Securities result offsetting better results for all other groups).

Wells Fargo : announced that CFO Howard Atkins is retiring for “personal reasons.” Atkins turns 60 this week. He will be on a personal unpaid leave of absence until his retirement on Aug 6, which marks his 10-year anniversary. Last week, CEO Stumpf replaced Atkins for a speaking engagement at an industry conference at the last minute. Atkins in our view was as one of the more respected CFOs in the business, but Tim Sloan, currently CAO, was named CFO. Sloan, 50, has been with WFC for 23 years. As CAO the functions of Corporate Communications, Corporate Social Responsibility, Enterprise Marketing, Government Relations and HR reported to him. Before being named to that newly-created position in September, he was head of Commercial Banking, Real Estate and Specialized Financial Services, where he oversaw more than 25 lines of businesses, including capital markets and investment banking. In all, he was responsible for $200 billion in assets and 440 offices in 40 states, Asia, Canada and London.

Unicredit: Jean-Pierre Mustier, the former head of Société Générale’s corporate and investment bank who left in the fallout from the Jérôme Kerviel rogue trading scandal, is set to be appointed head of UniCredit’s corporate and investment banking business. This is likely to be regarded as a coup for Unicredit with JP Mustier highly regarded.

Investor Group’s Q4 2010 results were eps of $0.76 versus consensus of $0.71 reflecting a number of items, including strong mutual fund earnings, a reduced share count, and better gains in net investment income. Mutual fund earnings was $361mm , due to higher distribution fees and lower expenses. Non-mutual fund earnings benefited from higher-than-expected contribution from GWO and good sales of insurance and mortgages. The number of Investor Group consultants continues to rise – a key driver to long-term earnings. The company continues to buy back shares, roughly $150mm in the quarter, a pace that the company could maintain given its net cash position and significant free cash flow generating capability.

Financial Infrastructure

Consolidation of Stock Exchanges: Toronto Stock Exchange / London Stock Exchange have announced an agreed merger of equals with the LSE to buy TMX for ~C$3.2bn in stock. They are targeting 8% cost synergies for the combined group by the end of year 2 which is arguably lower than comparable deals….and in our view positions this as a defensive merger. The combined group is also targeting revenue synergies of about £35m by the end of year 3 (c.3% of revenues); £50m by the end of year 5. LSE shareholders will own 55% of the combined group; TMX 45%. The combined group will be a heavyweight in cash equities – the world's 7th largest exchange - with a resources / materials focus making it vulnerable to any commodities slowdown and with limited exposure to derivatives and both clearing and regulatory issues on the horizon – we prefer Deutsche Bourse which has also confirmed merger discussions with the NYSE Euronext. This merger would also be an all-stock transaction with proforma ownership 59-60% Deutsche Boerse / 40-41% NYSE under a new legal entity incorporated in the Netherlands. Deutsche Boerse CEO Francioni to become Group Chairman (based in Frankfurt) and NYSE CEO Niederauer to become Group CEO (based in NY). Executive Committee to be drawn equally from both companies. Estimated, Eur 300 million cost synergies, representing ~8% of the pre-merger cost base before one-offs (IT, clearing, corporate center, etc with possibly substantial revenue synergies (clearing, cross-selling between global cash/ derivatives businesses). The combined entity, unlike the LSE/ TSX is not in our view a defensive merger and would create the world's largest exchange by revenues and profit and the second largest by market cap. This merger activity among the world's biggest stock exchanges is expected to increase pressure on Canberra to approve Singapore Stock Exchange's $8.4 billion move on the Australian Securities Exchange although with the trans-Atlantic deals designed with an eye to overcoming political concerns, Singapore could be forced to restructure its proposal to give the ASX a greater role in any tie-up.

Equifax reported 4Q10 operating cash EPS of $0.62, $0.02 ahead of consensus. The beat came mostly from a lower tax rate as well as a slightly better overall revenues although light in the core Online Consumer Information Solutions and The Work Number businesses. US Consumer Information Solutions revenues were $191.2 million (up 12.4% from last year), with Online Consumer at $116.8 million (up only 0.5%), Mortgage Reporting at $29.3 million (up 27.4%), and Credit Marketing at $45.1 million (up 46.0%). The pre-tax operating margin was 36.3%, up 250 basis points from 33.8% last year. International revenues were $125.9 million (up 7.0% from last year), with Europe at $36.2 million (up 0.8%), Latin America at $60.4 million (up 9.6%), and Canadian Consumer at $29.3 million (up 9.7%). The pre-tax margin was 23.6%, down from 27.4% last year. On a local currency basis, international revenues were up 6% from last year, with Europe up 6%, Latin America up 7%, and Canadian Consumer up 5%. North America Personal Solutions - Revenues were $37.8 million (up 5.0%) and the pre-tax margin was 31.0%, up from 28.3% last year. North America Commercial Solutions - Revenues were $24.9 million (up 12.2%) and the pre-tax margin was 32.1%, down from 33.8% last year. TALX revenues were $102.2 million (up 14.3%), with The Work Number contributing $54.2 million (up 30.3%) and Tax & Talent Management Services contributing $48.0 million (up 0.4%). The pre-tax operating margin was 24.4%, up from 21.1% last year.

Mastercard : Barclays Capital estimate the global personal consumption market which is accessible via card payments is over $21 trillion (roughly 65% of global personal consumption) – of which more than $12 trillion remains untapped. If Mastercard was able to maintain its 20%+ global market share that would be $2.3 trillion of incremental volume compared to its $2 trillion in payment volumes in 2010. Already, global payments volume (i.e. ex US) now represents >60% of Mastercard's business flow. With an estimated 85% of the world's transactions still conducted in cash, the secular growth story (converting spend from cash & cheque to cards and mobile payments) for Mastercard and Visa remains strong for many years.

Dividend Paying Companies

TOTAL announced 4Q adjusted net income of €2,556M, ahead of consensus at €2,497M. due to slightly higher than expected earnings in each of the company's three main business segments. Reported earnings of €2,030M were affected mainly by impairments on TOTAL's European refining assets, offset by gains on asset sales. Production of 2,286kboed was +0.4% year-on-year, although production was limited by -2% due to price effects. FY 2010 production grew by 4% and the proved reserve replacement ratio for the year was a solid 124%. Downstream margins improved, with TOTAL's European Refining Margin Indicator increasing from $16.4/t to $32.3/t. However, refinery throughput was decreased by 11% year-on-year due to strikes affecting French refineries, and the utilisation rate for the quarter was only 66%. TOTAL estimates the effects of the strikes at €100M in the quarter. Dividends of €2.28 per share remain unchanged. The net debt to equity ratio at the end of the year was at 22%, up from 18.2% at the end of 3Q, but reduced from 27% at the end of 2009. For 2011, TOTAL increased the capital budget to $20Bn from $18Bn in 2010, and 80% of the budget will be directed to the Upstream business (only 35% on producing assets), with the exploration budget set at $2.1bn, up again on recent guidance for $2Bn (and up from $1.6Bn run rate 5 years ago…which is needed and should be viewed positively). We continue to recognize Total's more aggressive exploration program and that its upstream portfolio is shifting towards long term assets such as LNG and oil sands which will produce very stable cash flows over the long term.

Syngenta – The Swiss leading global agri-business Syngenta reported better than expected results for the 2010 full year while at the same time announcing an ambitious internal reorganization program which would see the two business areas of the company, crop protection and seeds, merge. Company's sales in 2010 were up 6%, largely due to a pick-up in volume of 9%, which more than offset a weak pricing environment, primarily in North America. Business is booming in Latin America, with growth rates in sales of crop protection products up double digits, while emerging Asia has registered its sixth consecutive year of double digit growth, albeit from a smaller base. Group profitability was robust for the year, with the earnings before tax interest depreciation and amortization (EBITDA) margin at 21.5% well on the way to meeting the company's target of 22% to 25%, as the seeds business profitability improved in 2010 to 12.7% EBITDA margin compared to 2009's 10.0%.

Syngenta reported record free cash flow of $1.1bn in 2010. As the capital expenditure commitments are being reduced and the company expects top line growth and improved profitability, the management announced a 17% increase in the annual dividend to CHF7.00, while at the same time launching a 200mm share buy-back program. Syngenta announced today the approval of the corn amylase trait for Enogen by the USDA, making the company the first to register a genetically modified output trait in corn for the ethanol industry. The trait is to help generate more gallons of ethanol from existing facilities, while at the same time reducing the energy and water used in the process. Enogen will be available from the coming growing season on a smaller scale and ready for full scale commercial introduction in 2012.

Toyota – Despite tremendous currency headwinds, the number one car maker worldwide managed to bring in a decent set of results for the third quarter of their 2011 fiscal year, while at the same time increasing the guidance for the full year to ¥550bn of operating profit, as costs related to quality issues started to reduce. The management has also shown optimism towards the 2012 fiscal year, when it expects improvements both in term of sales and profits as sales volumes are expected to rise, while the cost of goods sold (COGS) is expected to retreat. The US auto regulator acquitted Toyota of unintended acceleration related to electronics. The Transportation Secretary pronounced that "Toyota vehicles are safe to drive". The company had identified and fixed the only known safety problems by focusing on mechanical issues with accelerator pedals and the risk that floor mats could trap the pedal in the open position.

Economic Activity, Consumer and Business Conditions

US – A relatively light week in US in terms of macro-economic releases, with the notable exception of the final reading of the Consumer Sentiment by the University of Michigan, which reached 75.1, a touch ahead of the expected 75.0, yet 0.9 higher in February compared to January and the highest since June of last year. With the current conditions component strengthening, while the expectations are weakening, the recent improvement could be a just a fad, spurred by the 'wealth effect' triggered by the Fed's QE2.

The country's trade balance opened up to $40.6bn in December compared to a $38.3bn deficit in November, as $3bn increase in exports was shadowed by a more than $5bn increase in imports.

Canada – Unlike the US, Canada managed to turn its lame foreign trade balance of -$115bn in November into a spectacular monthly surplus of $3bn in December, roughly $3.3bn more than the economists had forecasted. Most of the improvement was due to energy exports, helped by increased pricing, yet other areas registered improvements as well, notably farm and forestry products, as well as industrial goods. The auto sector continues to lag. It would appear that rather unique circumstances lead to such over-performance in December, although Canada did run average $4bn monthly surpluses for most of the past decade.

Canada: December's trade data confirm that net exports made a very strong contribution to GDP growth in Q4. Capital Economics estimate that GDP growth accelerated to 3.5% annualised in the final three months of last year and that this export strength partly reflects a rebound in the volume of energy exports, which were constrained earlier in the year by the closure of a key part of the pipeline network linking Canada with the US.

Spanish GDP accelerated in 4Q 2010 as exports increased (+6.6% Y/Y; +2.3% Q/Q). Spanish Prime Minister Zapatero's moves to overhaul banks while changing rules on labor, pension and wages may do more to stem the debt crisis than European plans to reinforce its bailout fund. Mr. Zapatero's cabinet plans to pass new rules for job seekers, two weeks after approving a draft bill to raise the pension age. By the end of the month it will pass a decree to bolster lenders' capital and in March aims to loosen collective- bargaining rules to make it easier for Spanish firms to compete.

Financial Conditions

Canada's OFSI: The Office of the Superintendent of Financial Institutions has issued two advisories on its proposed treatment of capital, particularly after January 1st 2013 by when the Basel Committee's requirements for improved capital is phased in through to 2019. The advisories support the global regulator's call for more and better quality capital . Popularly referred to as 'Contingent Capital', we can expect to see more quasi capital instruments issued which pay interest, much like debt but in the event of the bank being mired in a crisis which threatens the stability of it as a 'going concern, then a 'regulatory event' is triggered which converts the instrument to in perpetuity equity. (Barclays is currently considering issuing Contingent Capital in lieu of bonuses to its staff which therefore aligns staff to the importance of preservation of capital rather maximizing equity returns – an approach that other banks are now considering). In the aftermath of the recent financial crisis Canadian banks have been explicitly directed by OFSI to avoid using a 'regulatory event' as a pre-text for redeeming at par, capital instruments issued in the crisis which now trade at substantial premiums. In summary, OFSI's approach is very supportive of the global regulatory approach and extended timing for banks to be stronger but to retain the ability to support economic growth in the coming 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 2.81% 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 (18 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 5.05% - (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 15.69 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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