Market Commentary

PORTLAND INVESTMENT COUNSEL™

April 18, 2011

News Highlights on Current Holdings

Financial Services Companies

JP Morgan: Reported Q1 earnings per share of $1.28 v consensus $1.15. Revenues came in at $25.8bn v expected $23.9bn but expenses were also higher at $16bn vs $13bn. Credit Card reserve releases of $2bn were mostly offset by $1.1bn loss from mortgage servicing rights adjustment and $650m one-off foreclosure costs (mostly re WaMu). Investment banking revenues strong at $8.23bn. Most lines of business with the exception of Retail Financial Services had results that were ahead of estimates. Total Non Performing Assets were down 9.6% to $15.0 billion compared to $16.56 billion in 4Q10. Net charge offs were $3.72 billion vs $5.1 billion in 4Q10. Total Loan Loss Ratio improved to 4.10 % from 4.71% in 4Q10. Capital remains strong with Basel I Tier 1 common at 10% and estimated Basel III Tier 1 common of 7.3%. There was no change in guidance and Net charge offs in card are expected to further improve to 5.5% in 2Q and also encouraging to learn that C&I and CRE loan growth was circa 3% together with the pace of credit quality improvement (such pace will most likely slow given housing prices are still falling in many areas) but credit quality over all was better with total Non Performing Assets down 9.6% to $15bn. With book Value per share at $43.34 – the stock price remains very attractive in our view.

Bank of America reported 1Q11 EPS of $0.17. Excluding one-time items EPS were $0.32 compared to consensus of $0.27. Core revenue was slightly higher than expected, due to a higher-than-expected net interest margin (NIM) of 2.67% and a solid trading quarter (Investment Bank revenues up 44% QoQ but down 19% YoY - not quite as strong as JP Morgan) offset by weakness in mortgage banking and core fee income. Credit quality was a significant highlight as the provision for loan losses, net charge-offs (NCOs), and nonaccrual loans decreased from the prior quarter and year-ago period. The provision for loan losses was reduced to $3.8 billion from $5.1 billion with a $2.0 billion reserve release, driven primarily by card. Also, there was the unexpected but welcome reduced exposure to reps and warranties claims from monolines with a settlement of $1 billion with Assured Guaranty that eliminated collateral exposure of $35.8 billion and principal at-risk of $10.9 billion. There was also strong investment and brokerage revenue growth of 8% compared to last quarter offset by lower card income. However, what was worse than expected were litigation expenses of $900 million; the $1bn reps & warranties settlement; elevated mortgage repurchase expenses of $1.0 billion in 1Q11 (albeit down from $4.1 billion last quarter); an increase in unresolved mortgage repurchase claims to $13.6 billion in 1Q11 from $10.7 billion in 4Q10; a $400m own debt value adjustment cost; a 15% y/y decrease in core fee income and an 11% increase in loans 90 days past due, compared to last quarter. But with shares trading at only 61% of book, and 97% of tangible book the disappointments are in our view overly priced in, with insufficient attention given to the potential upside to this business as the US recovers.

Aviva sold 25m shares in Delta Lloyd last Tuesday via an accelerated book-build starting at EUR 17.25. This was a 9.2% discount to Monday's close of 18.99. Gross proceeds of £381m. As a result of the sale, Aviva's shareholding in Delta Lloyd will fall from 58% to 43%. The lock-up on the retained stake is 90 days.

Franklin : reported assets under management (AUM) at the end of the month of $703.5bn. Its estimated the long-term AUM inflows were $7.6bn or 13.3% organic growth with positive flows in both international and domestic equity ($3.1bn and $0.3bn, respectively) totalling $3.4bn into equity (13.5% organic growth). Fixed income had inflows of $3.3bn or 14.8% organic growth ($4.34bn into international with muni outflows of $0.8bn). Hybrid inflows of $0.8bn (8.9% organic growth) and finally money market outflows were $1.5bn.

Invesco: reported March-ending assets under management (AUM) of $642bn, up 0.1% month over month. While money funds declined -3.9% or -$2.9bn long-term AUM of $571bn rose modestly from $567bn in the prior month. AUM were negatively impacted about -$900mn by foreign exchange movements. Long-term flows were positive in the month. The company announced that it generated long-term inflows in the month, estimated to have been around +$1bn.

Deutsche Bank: is moving to re-organise its US operations to meet new financial regulations and avoid having to raise billions of dollars in extra capital. The German lender aims to shed the bank holding company status of Taunus, a US division that would currently fall short of capital standards under the landmark Dodd-Frank financial reform legislation. Two of the division's operating units, its US securities and trust arms, would be folded into the German parent group, while Taunus would continue to house other US-based entities. Barclays have previously brought their BHC under SEC regulation, thus avoiding capital requirements that Bank Holding Companies face. Barclays has already been through a similar reorganisation exercise.

UK Banks: UK Bank ICB Report - Key points:

(i) Systemically important banks (all UK quoted) should hold at least 10% core tier 1, which "should become the

International standard" – all of the larger British banks currently exceed this threshold and arguably only RBS and Barclays might fall close to the limit by end 2012 if they met their growth targets the rest are already expected to be >10%);

(ii) UK Retail banking operations should be conducted from a separate subsidiary - free capital flows between it and wholesale subject to the overall minimum being achieved;

(iii) Weakening of competition in UK Retail banking as a result of the crisis needs to be remedied;

(iv) A number of proposals re: a/c switching, etc, but do highlight that Lloyds divestiture as currently proposed will have "a limited effect on competition unless it is substantially enhanced."

The proposed changes are similar to regulations in the US, where banks are limited in the amount of deposits they can use for investment banking and commercial banking activities. Overall the tone is more relaxed and conciliatory towards the sector than the market might have been expected…and far less expensive than the earlier mooted break-up of retail away from investment banking. So despite Barclays and Lloyds still being the most affected (funding for Barclays and further branch sales for Lloyds) they still both look very attractive at the current levels in our view.

National Australia Bank is probably still keen to buy the Lloyds TSB retail banking assets in Britain. This follows regulators ruling the beleaguered bank should nearly double the number of branches for sale from 600 up to 1000.

Santander: Interview with Ana Botin (CEO of SAN UK) in the Financial Times last Monday. There are mentions in the article that an IPO of the UK business is not a priority for 2011. Botin will focus on growing SAN UK's share in current accounts (by 2% to 12%) and SME lending (targeting annual growth of 20%). The other key target is improving the bank's customer service levels, with a willingness to invest in the short term to improve this - i.e. cost/income ratio no longer such a key focus.

RBS is to amalgamate its four nonlife brands in the United Kingdom in a move connected to its preparations for Solvency II. The four are Direct Line Insurance plc, Churchill Insurance Co. Ltd., UK Insurance Ltd. and the National Insurance and Guarantee Corp. Ltd.

Financial Infrastructure

Deutsche Bank: NYSE Euronext's Board has rejected the unsolicited and 'highly conditional' NDAQ+ICE offer for the company, and intends to continue to pursue the announced combination with Deutsche Boerse. We believe this is an expected development for NDAQ & ICE, and we doubt this will end their pursuit of NYX, which could continue as a hostile attempt.

Dividend Paying Companies

Carrefour – The second largest retailer worldwide reported on its first quarter sales last week, delivering a broadly in line performance, its €24.7bn sales being 3.9% higher than a year ago. The revenues were driven by a strong performance in emerging markets, higher by 12.2% year on year, driven by Latin America and Asia, while the top line fell 4.7% in Western Europe. In the core developed European markets performance improved actually in Belgium and Spain, with the home market of France broadly stable, while Italy was weak in a continued difficult trading environment. Inflation has picked-up across the board, including in France. The company maintained its sales and profitability targets for 2011.

Carrefour divested 49% of its Brazil consumer finance unit for which it cashed $467mm from Itau Unibanco, the largest non-government bank in Brazil.

Noel Prioux has been named as the executive director for Europe after the departure of Vincente Trius to Loblaw Companies of Canada. Prioux is an in house veteran who served as Executive Director Turkey, Director of hypermarkets for France, Executive Director Colombia and Executive Director South Asia, since he joined the company in 1984.

Nestle – Monday morning Reuters reported that Nestle, the largest global food manufacturer, had agreed to take a 60% stake in China's Yinlu Foods Group, a large regional company known for its peanut milk and instant porridge products. The consideration for the purchase has not been disclosed, yet we estimate it could have been around $2bn, based on recent transactions in the space. The family-owned Yinlu has sales of about $840 million a year. Observers don't expect any significant regulatory push-back for the deal, despite the 2009 blocked deal by Coca Cola, which had to drop its take-over of China Huiyuan Juice Group, on monopoly concerns. The Yinlu group, although a sizeable food manufacturer, lacks the national scope. Nestle has been present in China for more than 20 years and employs 14,000 people.

Syngenta –first quarter sales beat the expectations as strong sales in Eastern Europe and Latin America drove the top line

13% higher reaching a record level of $4.02bn. Volumes were particularly strong in most areas, while pricing was stronger than expected. The company is continuing its strong performance in the key US corn market and making progress in soybeans in Latin America and sunflower in Eastern Europe. The company maintained its up-beat outlook for 2011, expecting continued positive volume momentum, broad growth across regions and stabilization of crop protection pricing. Longer term the company maintained its 22% to 24% earnings before interest tax, depreciation and amortization (EBITDA) margin target and continues to aim for an increased dividend return.

Vivendi – the French telecom and media giant, is reported to have raised €3bn, which it needs to pay for the acquisition of the minority interest in SFR, the leading French telecom, through a syndicated loan. The financing comprises two €1.5bn facilities, maturing in 2012 and 2014, respectively and it was signed with 13 different banks. The issuance enjoyed strong up-take, with more than €5bn being committed in the senior round of the syndication.

Economic Activity, Consumer and Business Conditions

The Bank of Canada kept its key overnight lending rate unchanged at 1.0% for the fifth consecutive meeting with no indication they were poised to hike at the next meeting. As well, the Bank stressed the dampening impact of the Canadian dollar on both growth and inflation. The Bank raised it GDP growth forecast for 2011 to 2.9% from 2.4%. The output gap is now seen to be closing by mid-2012. We believe this timeframe leaves some room before needing to hike rates. The core inflation forecast was not changed notably. In fact, the Bank of Canada now sees core inflation getting back to 2% by mid-2012 (in line with the output gap closing), six months ahead of the January forecast. The Canadian dollar was cited as a headwind to growth in two separate instances --- as a competitive challenge that will restrain net exports, and persistent strength could put "additional downward pressure on inflation".

US – A wealth of economic data points released over the last week stateside indicates a steady improvement in economic conditions, albeit at a slow pace, as well as mild inflationary pressures.

The US trade deficit shrank in February to $45.8bn, compared to January's $47bn, yet short of the expected $44.5bn, as both imports and exports decreased, with the former outpacing the later. Some of the reduction in imports is arguably caused by a reduction in the influx of auto parts and other components out of Japan. Industrial production moved 0.9% higher in US in March, compared to a flat reading the month before and better than the expected 0.5% improvement. Areas contributing to the increase were the auto industry, the construction supplies and the business equipment. The capacity utilization continued to creep higher, reaching 77.4% in the month, above February's 76.9% and higher than the expected 77.3% level.

At the consumer level, after a couple of significant pull-back in the confidence levels, the Consumer Sentiment as measured by the University of Michigan, moved higher, to 69.6 in April compared to March's 67.5 and expectations of a 68.5 level. Both the current conditions and the expectations components of the composite contributed to the improvement. The retail sales of March also attest an improvement of the consumer attitudes, moving 0.4% higher at the headline level, barely missing the consensus expectations of a 0.5% move, while the core reading (excluding auto sales) moved higher by 0.8%, exceeding expectations.

Mild inflationary pressures are being felt at the producer level, with the headline producer price index (PPI) being 5.8% higher on a year on year basis, yet a bit lower compared to expectations of a 6.2% rate for the month of March. The core PPI moved to a 1.9% year on year rate level, in line with the expectations. The headline consumer price index (CPI) accelerated a bit in March, to a 2.7% year on year level, compared to February's 2.1% level, driven mainly by fuel and energy, as attested by the core value, which strips out those effects. The core CPI inched higher as well, to 1.2% in March, yet only barely so, compared to February's 1.1% rate.

The perennial laggard of the US economy, the housing sector, posted another weak reading, with the National Association of Home Builders (NAHB) Housing Market Index retreating a point to 16 in April, from the already very low level of 17.

Canada – Canada's visible goods balance continued its series of dismal performance, with a $30mm surplus only in February, compared to a revised January surplus position of $380mm, short of the expectations of a $500mm surplus and way below the pre-recession average of roughly $4bn. The main culprit were the industrial exports, although the energy were not a big contributor either, this time around.

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 2.75% and the U.K.'s 2 year/10 year treasury spread is 2.40% - 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 (35 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 4.91% - (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 7.6 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 15.32 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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Martin Pommier - Global Financials Daily (UK Banks, EU Capital, DB1, SAN, RBS, Nordic Banks, Spain, JPM, AIG, AEL, Japan, Philippines, AIA, Yuanta, Fubon, Suruga) email dated April 11, 2011

Robert Lee - IVZ: Estimate Modest Long-Term Inflows in March – email dated April 11, 2011

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