Market Commentary

PORTLAND INVESTMENT COUNSEL™

April 2, 2012

News Highlights on Current Holdings

Financial Services Companies

BNP Paribas is more than two thirds along in its restructuring program aimed at increasing capital buffers and reassuring investors about the bank's financial strength, chief executive Jean-Laurent Bonnafé said. (source Wall Street Journal).

Bank of America stated last week it was launching a pilot program that will allow homeowners facing foreclosure an opportunity to remain in their homes while transitioning to tenant status. Under the pilot program known as "Mortgage to Lease," participants will transfer their property titles to the bank and have their outstanding mortgage debt forgiven. Fewer than 1,000 customers will be invited to participate in the first phase of the pilot and the bank said it has started selecting customers in test markets in Arizona, Nevada and New York - three states hit hard in the housing downturn. (Source : Reuters).

An Article in last Friday's Financial Times titled "Bank of America settlement clears legal hurdle" saying Bank of America took an important step toward cementing a $8.5bn legal settlement when a court rejected a challenge to the deal by Baupost. On Thursday, Barbara Kapnick, a judge in New York's Supreme Court, dismissed a complaint from Baupost, which brought the case under the name Walnut Place. Baupost had objected to the way Bank of New York had handled its complaints about Countrywide Financial Corporation. Kapnick said Bank of New York "did, in fact, act upon [the] complaints, as demonstrated by the settlement agreement". The Financial Times says Kapnick's decision could bode well for the ruling on whether to uphold the Bank of New York settlement. A hearing on that is expected next month and Kapnick is also deciding that case. Bank of New York said: "We're pleased with the court ruling." Still, it also says it was only a step in Bank of America's direction. Baupost said in its complaint that it had told Bank of New York, the trustee for the Mortgage-backed securities (MBS) trusts, in 2010 that it should force Countrywide to compensate the MBS holders because many of the loans underpinning the securities had breached underwriting rules. Other complainants, including the New York AG, are pursuing Bank of America over the MBS.

Lloyds Banking Group announced last week that it is selling its onshore Dubai business to HSBC Bank Middle East Limited.

The Group's onshore presence in Dubai comprises retail, commercial and corporate banking business and the total assets subject to the transaction total £482 million as of 31 December 2011. The Group's other private and expatriate offshore operations based in the United Arab Emirates

are not subject to the transaction. This transaction is in line with the Group's strategy of reducing its international presence. The impact of the sale on the Group's accounts is not expected to be material. HSBC has indicated the acquisition provided a 'scarce opportunity' to expand in the UAE where there is 'a high barrier to entry'.

National Australia Bank : has lost one of its biggest custodial clients with the defection of QSuper, the Queensland-based superannuation scheme that oversees $33bn of assets, to State Street.

Royal Bank of Scotland : The BBC reported that the UK government is in advanced talks to sell a significant chunk (10-33% of its stake) in RBS to Abu Dhabi Sovereign Wealth Funds after months of negotiations'. The article then does go on to say that no deal is imminent and could take 6 months to finalise (government hopes it can be agreed before Christmas). The government has 2 sets of shares (1) Ords (45.2bn shares) and (2) B shares (51bn share). The ordinaries were bought in 2 tranches at 31.75p and 65.5p, and the B shares have a strike of 50p. Technically the B shares are freely transferable, but the EC and HMT have an agreement that HMT will not sell the B shares below 50p (without prior EC approval) so no-one will buy them below 50p. So, any stake will involve the sale of the ordinary shares. This is not going to happen short term, but a rise in the free float would help the stock matter for benchmark investors and therefore increase interest in the stock. This would be a positive.

Royal Bank of Scotland - the Wall Street Journal today says that the bank is about to complete the sale of its Asian equities unit to CIMB Group of Malaysia. Separately the Daily Telegraph says that the bank is in talks with the FSA to potentially re-instate dividends on their preference shares as the EU ban finishes at the end of April.

Santander - CEO Alfredo Saenz says in presentation posted on the banks website last week that Santander is well placed to "start growing in 2013". He also said that Santander expect to earn Euro 2bn more in Spain and Portugal in the next two coming years.

Financial Infrastructure Companies

Global Payments : On Friday, the Wall Street Journal reported that Global Payments experienced a data breach, putting roughly 50,000 credit and debit cardholders at risk, other sources then suggested the breach may involve up to 10 million cards, causing the share to be suspended. According to the article, the estimated timeframe over which the breach occurred was from January 21, 2012 to February 25, 2012. Global Payments have since advised that fewer than 1.5 million card numbers 'may have been exported' by criminals. The company noted that it identified the unauthorized access into its system about three weeks ago, and subsequently contacted law enforcement authorities and the card networks immediately. The Heartland Payment Systems data breach in early 2009 resulted in legal charges to the company of ~$147 million in 2009 and 2010. While the size of Heartland's breach (involving over 100 million compromised cards) appears to be meaningfully larger than the one reported at Global Payments (and involved a timeframe ~6x as long), we recall that Heartlands saw a drop in operating margins as a % of net revenue from the high-teens to the low-teens following the breach related to the need to upgrade systems (in addition to potential costs associated with reputation and/or customer attrition). However, Global Payments has since reaffirmed its 2012 earnings forecast after the security breach of $2,150-$2,200MM and cash earnings per share guidance of $3.50 to $3.58, According to comments provided by management, only track 2 card data may have been stolen (i.e. card numbers and validation codes), and the company believes that cardholder names, addresses and social security numbers were not accessed. Global Payments believes the affected portion of its processing system is confined to North America and the incident is contained. As it relates to the card networks, both Visa and MasterCard have stated that there has been no breach of their systems. Fraud risk is the responsibility of the merchant acquirer and/or issuer (not Visa and MasterCard)

Dividend Paying Companies

BHP – announced the departure of Ian Ashby, the chief executive of its iron ore division, who stepped down after 25 years with the company, as the company embarks on an $11Bn iron ore production expansion program. Ashby will be replaced by Jimmy Wilson, the current head of BHP's energy coal unit. The timing of the transfer of responsibility is being perceived as reasonable, given the division is at the beginning of a five year large capital investment program. The iron ore division doubled its earnings last year, reaching $13.3Bn helped by higher production and stronger pricing, and it accounted for 42% of the group's earnings.

Earlier today BHP declared force majeure at its metallurgical coal mines in Australia's Bowen Basin as production had been affected by union strikes and heavy rain. The mines supply about one fifth of the world's coking (metallurgical) coal. About 3,500 unionised workers have been staging rolling work stoppages since mid-2011 and Australia's Queensland, where the mines are located, has been affected by heavy rain recently, which followed heavy flooding last year. The mines are operated by BHP Mitsubishi Alliance (BMA), a joint venture between BHP and Mitsubishi Development Pty, and have an annual capacity of about 58mm tonnes. BHP planned to bypass unions and go straight to employees to vote on a proposed contract toward the end of April. An additional 1,500 non-union, directly employed staff, and some 5,000 contractors are not expected to be affected by the labour actions.

Novartis – reported encouraging results for three late-stage studies involving its QVA149 drug for chronic obstructive pulmonary disease (COPD). QVA149 is a combination of Novartis' Onbrez and another of its lung drugs, NVA 237. The firm expects that this new two-in-one medicine would allow it to challenge the respiratory market leader, GlaxoSmithKline. One of the trials showed that the once daily dose of QVA149 was better than the equivalent dose of Onbrez and NVA237 taken individually, another study showed that patients had a significantly better exercise endurance compared to those taking placebo, with a third one showing that QVA149 was well tolerated and that the drug had a safety and tolerability profile similar to the placebo drug. NVA237 has a similar mode of action with Spiriva, a drug marketed jointly by Pfizer and Boehringer Ingelheim. Industry analysts estimate the peak sales for QVA149 of close to $3Bn. COPD causes breathing trouble and chronic coughing and is estimated to affect 210 million people worldwide; the condition is predicted to become the third leading cause of death by 2020.

Vivendi – Maroc Telecom announced its intention to issue as much as 200mm new shares, the equivalent of up to $3.2Bn or 22.7% of its existing capital. While industry observers quickly speculated that an acquisition might be envisioned, management only stated that the capital would offer the firm "flexibility should an eventual need arise". If approved, the capital increase would be the largest on the Casablanca bourse. Maroc Telecom is the second most lucrative subsidiary of Vivendi, behind SFR. Maroc Telecom already has subsidiaries in Mauritania, Burkina Faso, Gabon and Mali.

Universal Music Group, a wholly owned subsidiary of Vivendi, has been reported to be looking for buyers for some of its publishing catalogue as part of planned divestitures to fund its pending takeover of EMI. The sales would include a catalogue of Universal's classical music, for which the firm expects to get as much as $200mm. Universal is expected to sell as much as

€500mm worth of assets to fund the acquisition while protecting the parent company's credit rating.

Hutchison Whampoa : Hutchision reported net earnings of HK$56 bn, in line with consensus although the exceptional, one-off gain of HK$22.4 billion is 6% higher than expectations due to stronger-than-expected contributions by almost all divisions. Most importantly, the telecommunications 3G operations, which reported an EBIT of HK$1.4 bn, were in line with forecasts. From having three countries with a negative EBIT in 1H 2011, namely Italy, Australia and Ireland, 3 Italia has started contributing positively in 2H 2011. In general, the fear that the European operations would be a drag on Hutchison's performance proved to be wrong. Also, Management believes the acquisition of infrastructure projects in Europe has been proved a successful business model and is likely to continue. On the container port front, about 20-30 new berths are expected to be completed in the next three years. Along with the recovery in cash flows, Hutchison's full-year dividend has been risen by 8% to HK$2.08.

Economic Activity, Consumer and Business Conditions

US – The US manufacturing seems to be recovering some of the recently lost momentum, with the Purchasing Managers Index (PMI) of the Institute for Supply Management (ISM) reading for March, issued earlier today, surprising on the positive side, up to 53.4 index points from 52.4 in February, pushing through the expected 53.0 level, with 15 of the 18 surveyed industries contributing to the improvement. While far from spectacular, the above 50 reading indicates continued growth in the US manufacturing. Earlier in the week, the US durable goods orders for February, advanced by 2.2%, offsetting some of the 3.6% drop recorded in January, yet it fell short of expectations calling for a 3.0% improvement. The improvement in the durable goods orders was broad based as well, led by transportation, which was up by 3.9% in the month. Durable goods order excluding transportation were up by 1.6%, just shy of the expected 1.7% improvement.

On the US consumer side, there has been a recovery in the consumer sentiment, with the revised US Consumer Sentiment for March, as measured by the University of Michigan, reaching a 76.2 index points level, ahead of the expectations at 74.7 and up from February's 75.3 level, driven by an improvement in the "current conditions" component, up to 86.0 index points from 83.0. The "expectations" component retreated in the month, to 69.8 from 70.3, yet managed to stay way ahead of the expectations, which were calling for a 68.0 level. The Conference Board measure of the Consumer Confidence, reported earlier in the week, had indicated a weakening of the confidence to 70.2 points from February's 71.6, largely in line with the expectations. The personal income report revealed a higher than expected personal consumption for February, up 0.8% month on month, exceeding January's 0.4% rate and the expectations for a 0.6% improvement. However, there is reason for caution going forward, partly captured by the sentiment gages, as personal income growth failed once again to live up to expectations, growing at only half the expected rate, 0.2% compared to 0.4% in the month of February.

On the inflation front, the key personal consumption expenditures (PCE) core pricing index, the Fed's favourite inflation measure, has remained steady at 1.9% year on year rate of growth, close to the freshly minted Fed's 2% inflation target.

The US housing pricing, as measured by the Case-Shiller Index for the 20 metropolitan areas, registered a 3.8% year on year reduction, much as expected, albeit marginally better than January's negative 4.1% level. The weakness in the US housing pricing does not surprise us, as we expected the pricing to stay soft in the near future due to the 'shadow inventory' overhang, yet we do expect a gradual recovery over the next couple of years as the 'shadow inventory' is being drawn down and we believe it is likely to see a much stronger housing pricing recover afterwards.

Canada – Economic output in Canada managed to deliver a positive, albeit anaemic, monthly growth for January, driven chiefly by manufacturing, in particular auto production, which was offset by weakness in the energy and construction sectors. GDP by industry grew by 0.1%, as expected, on top of the 0.5% December advance.

At the producer level, inflation does not seem to be a problem in Canada, moving higher by only 0.2% in February, short of expectations of 0.4% growth. A 0.5% retreat in raw materials pricing for the same month offered little support to producer's case for further increasing prices.

The European Central Bank says the flow of credit to businesses slowed in February - a sign that the bank's massive loans to the financial system have yet to spur the EU economy.

Financial Conditions

Euro zone finance ministers agreed on Friday to increase their financial firewall to €700bn to ward off a new flare-up of Europe's sovereign debt crisis, drawing a positive initial reaction from G20 partners and markets. The 17-nation currency area agreed to combine two rescue funds to make €500bn of new funds available in case of emergency until mid-2013, on top of €200bn already committed to bailouts for Greece, Ireland and Portugal (source: Reuters).

Federal Reserve policymakers appear determined to flatten the yield curve as much as possible, having indicated they expect ‘exceptionally low levels’ of interest rates “at least through late 2014”. which is still an “exceptionally low level” in the grand scheme of things. Fed Reserve Chairman Ben Bernanke has indicated 1% or less would be considered exceptionally low. The advent of the US ‘twist’ (whereby the Federal Reserve is selling 3 year and less maturities to buy 6 years and longer) means all parts of the yield curve will benefit from a near-zero anchor for essentially the next 3 years. The U.S. 2 year/10 year treasury spread is now 1.86% and the U.K.’s 2 year/10 year treasury spread is 1.80% - meaning investment banks can no longer profit from a steep yield curve and instead are seeking operational efficiencies, including job cuts and lower compensation, to maintain acceptable levels of profit, i.e. above their costs of capital. It seems the top tier 8-10 investment banks will continue to command their market and possibly increase their share – as barriers to entry for newcomers have in our view been raised.

Influenced by the US ‘twist’, the U.S. 30 year mortgage market remains very low at 3.99% - (3.87% is the lowest rate since the Federal Reserve began tracking rates in 1971), as the Federal Reserve effectively continues to give priority to incentivising home ownership. Existing U.S. housing inventory improved to 6.4 months supply of existing houses. So the combined effects of record low mortgage rates, near record high affordability, a more promising economic recovery, job creation, and low prices are finally supporting the housing market with housing inventory well off its peak of 9.4 months and we believe now in a more normal range of 4-7 months. While we still believe it remains premature to consider a recovery in house prices prospects of a measure of stability are likely to increases as a result of the Fed actions – which 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 and whether bank’s have mis-represented the quality of those assets sold to Freddie Mac and Fannie Mae. Such legal debates are likely to drag on for years but from recent bank investor relations presentations it does seem the rate of “put backs” are now beginning to decline and that litigation reserves have been increased suggesting overall current levels of total provisions should suffice, enabling banks to continue to post increasing earnings per share (as credit improves) over the next 2 years by when we expect more normalized earnings power to have returned. 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.

As concerns have swung from commercial real estate and unsecured consumer loans/credit card loans to European sovereign debts the number of small U.S. banks failing continues to grow, albeit at a more moderate pace with 17 in 2012 (compared to 95 in 2011 and 157 in 2010 which was the highest annual tally since 1992). 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 VIX (volatility index) is 15.50 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

Market Commentary

PORTLAND INVESTMENT COUNSEL™

April 2, 2012

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.

Chris Wain-Lowe
Executive Vice President
Portland Investment Counsel Inc.
Phone: 905-331-4250 Ext. 4232
Fax: 905-331-4368
www.portlandic.com

Market Commentary

PORTLAND
INVESTMENT COUNSEL™

April 2, 2012

Source: Thomson Reuters, Bloomberg, Company reports

Portland Investment Counsel Inc., 1375 Kerns Road, Suite 100, Burlington, Ontario L7P 4V7 Tel.:1-888-710-4242 • www.portlandic.com • info@portlandic.com

PIC12-0046(04/12)