Market Commentary

PORTLAND INVESTMENT COUNSEL™

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Recirculation

The recirculation of shares in Copernican World Banks Split Inc. was completed last week. We will look to commencing the recirculation of shares in Copernican International Premium Dividend Fund (CPM.UN) early next week. CPM's portfolio of securities has risen since the November month end which should enable the recirculation price to be at an attractive discount to its current net asset value.

We have attached CPM's latest business brief.

News Highlights on Current Holdings

Financial Services Companies

Royal Bank of Canada reported Q4 f2010 core cash EPS of $0.84, below consensus core cash EPS of $1.01. Fully-diluted GAAP EPS was $0.74. Cash return on equity dropped to 14.2% from 14.8% q/q. RBC's Tier 1 ratio was a strong 13.0%, up from 12.9% last quarter. The earnings miss is attributable to the Canadian and International Banking divisions (higher than expected expense levels and credit losses in US retail banking), partially offset by a strong contribution from insurance (on the back of a positive actuarial adjustment) and credit recoveries in Capital Markets. A refinement in the bank's strategic goals suggests that it will remain focused on global wealth management and capital markets, and less on U.S. and retail banking (particularly U.S. retail banking).

TD missed Q4 f2010 consensus forecasted EPS, reporting core cash EPS of $1.38, below the consensus estimate of $1.46. The dividend remained at $0.61 per share. Despite an earnings miss in Q4/10, we believe that TD is well positioned to deal with a slower growth environment and that the weakness in this quarter's results is temporary, the product of non-recurring incidents. Notwithstanding that specific provisions were higher than expected and that Management's comments on the credit outlook for both Canada and the U.S. were more cautious than expected, we like the fundamentals across the bank's business units, particularly in the Canadian and U.S. Banking segments. Return On Equity 12.4% and Tier 1 capital ratio at 12.2%. Ed Clark reiterated that a dividend increase will be up for discussion next quarter, and with the payout ratio currently below the upper end of TD's 35%-45% target payout ratio we believe a modest increase to be likely in the next few quarters.

CIBC reported cash EPS of $1.19, versus $1.59 in Q4 f2009 and $1.55 in Q3 f2010. Core cash EPS, which excludes CIBCs specified items, was $1.68. Consensus EPS was also at $1.63 per share. The most positive aspect from the quarter was the solid earnings from CIBC's Retail Markets. Wholesale Banking exhibited some weakness this quarter.

Scotiabank reported Q4/10 cash EPS of $1.02. This includes a $0.03/share general allowance reversal, excluding which adjusted EPS came in at $0.99 (consensus $1.00). Arguably weaker than expected contributions in Scotia Capital and Canadian Banking (largely expense related) were offset by a positive surprise in International Banking (better credit losses and revenues) and a lower than expected drag from the Corporate division (appears to be due to an increased contribution from securitization). The bank's overall net interest margin (avg. earnings assets) was 1.97% up 2 bp q/q but declining 2 bp from a year earlier. Operating ROE: 17.7% and the Tier 1 ratio ended Q4/2010 at 11.8% versus 11.7% in Q3/2010 while the tangible common equity ratio improved to 9.6% from 9.3% sequentially.

AGF announced the acquisition of Acuity for $325 million last week, 40% shares and 60% cash. AGF will increase debt to fund the cash portion of the acquisition. Acuity has $7.4 billion in AUM, of which $2.75 billion is retail mutual funds. The purchase price is approximately 4.4% of assets under management. Strategically, Acuity has strengths in balanced and fixed income products that would be positive for AGF's platform. The acquisition should be modestly accretive in the first year. Given this acquisition, it seems unlikely in our view that AGF is looking to sell its business in the near to medium term.

AMP and Axa Asia Pacific have signed a binding transaction agreement as part of the deal to merge the two companies. The documents set out the key commercial terms to allow the merger, and provide two weeks of reciprocal due diligence before the legally binding offer is made.

AXA Asia Pacific investors will be asked to approve AMP's ambitious $14bn bid early next year.

Bank of America has fulfilled the conditions (i.e. disposed of enough assets) to fully pay back its remaining $3bn TARP funds. Recent sale of China Construction Bank rights and part of its Blackrock stake has given the company sufficient funds to make the repayment. Bank of America still needs formally to satisfy the FED that its divestments are sufficient otherwise it would have to issue further equity. Repayment of TARP is a requirement prior to increasing the dividend.

Barclays was the biggest cumulative user of Fed emergency credit with a cumulative $232bn (Next Bank of America $212bn). Barclays borrowed a total of$232bn from the TAF through various subsidiaries. Barclays said it had "repaid all the relevant facilities that it accessed in the USA by end December 2009". It is worth remembering they acquired the defunct US operations of Lehman in late 2008. This does however help to explain the supra-normal revenues of BarCap during 1H09 (GBP10bn twice current run-rate) as the spread between Fed funds and 3m Libor was at its peak. More recently Barclays Capital has said it is preparing to eliminate hundreds of jobs in the next two months following a decline in investment banking revenue.

HSBC – In response to ongoing regulatory pressures HSBC's Asian private equity arm has had an management buyout and has been renamed Headland Capital Partners. The unit has about $2.4bn under management. No financial details were disclosed. The spin-out is the first of five planned management buy-outs of HSBC's private equity businesses. Also, the trustee of Bernard Madoff's failed investment firm is suing HSBC for $9bn, claiming the bank turned a blind eye to 'red flags' that should have caused it to stop funnelling money to Mr Madoff's operation. The trustee has previously filed multi-billion suits against UBS and JP Morgan.

Lloyds Bank / Santander; Financial Times reports that, having left, former CEO Antonio Horta-Osorio is taking two other top executives from Santander UK with him to Lloyds. Juan Colombas will join Lloyds as Chief Risk Officer and Antonio Lorenzo will head up wealth management and international. Santander is bringing in three Spanish executives in their place, including two from Banesto, to join Ana Patricia Botin who was named as replacement CEO of the UK business.

Santander made clear late last week that it is sticking to the planned £20bn UK IPO in the first half of 2011 following a Guardian article saying that Santander was postponing their UK unit IPO until the second half of 2011. Also, Santander will reimburse investors in its property fund, Santander Banif Inmobilario fund at a cost of Eur2.35bln if every investor decides to withdraw. Two years ago the bank sought regulatory permission to freeze payouts from the fund. It's likely Santander will take full control and so avoid dissolution of this real estate fund as upon eventual dissolution there is potential for larger losses to be realized.

Maquarie is preparing to focus its acquisition activities over the next 12 months on Europe. Mr Sheppard, Deputy MD said Maquarie was particularly keen on institutional fund management assets in Europe that could complement the Delaware business in the US. There was no specific budget for deals, though the total tally was unlikely to match the rate of acquisitions in the past 18 months. Macquarie's normal deal size is $100m-$200m.

Prudential has unveiled new profit targets for its rapidly growing Asian activities in the wake of its abortive attempt to buy AIA, the Asian arm of AIG. Shortly before the start of an investor conference in London last Wednesday, the UK-listed insurer said it was aiming for its 2013 new business profits in Asia to double the £713m produced in 2009.

Standard Chartered Plc plans to hire about 1,800 people for its global trading and underwriting operations over the next three years as the bank aims to more than double revenue from those businesses. The expansion from the current 1,700 employees at the Financial Markets unit is part of a goal to boost net revenue from those operations to about $10 billion by 2014 from $4.4 billion last year, Leonard Feder, head of the division, said in a Nov. 25 interview in Singapore. Standard Chartered plans to expand in underwriting securities denominated in the Chinese currency and boost trading on behalf of clients in equities, commodities and currencies, according to Feder, offshore yuan-denominated products is "probably number one on our list," Feder said. Standard Chartered arranged McDonald's Corp.'s sale of yuan bonds in Hong Kong in August, the first by a foreign non-financial company.

UBS announced last Friday it is to replace its current CFO John Cryan on 1 June 2011. UBS states that John Cryan has decided to step down May 2011 for personal reasons. He will hand over his tasks in the transition period. This, we believe, is further evidence that UBS has completed the majority of its restructuring , during which period John Cryan admirably tackled and explained the issues to investors. UBS additionally announced that Sergio Ermotti, former Group Deputy CEO of Unicredit, will join UBS as Chairman and CEO of EMEA and member of the Group Executive Board with effect from April 1, 2011.

UNICREDIT has appointed three managers to positions that were freed up after a reshuffle post the resignation of CEO Mr Profumo. Frederik Geertman (head of marketing for retail banking) will head UCG's family and small business unit, replacing Roberto Nicastro (recently appointed general manager under new CEO Federico Ghizzoni). Also reported Alessandro Deci (head of the bank's Turkish business), will take over UCG's interests in central and eastern Europe, and Paolo Cornetta will lead human resources.

Financial Infrastructure

Deutsche Bourse is reportedly in talks about an alliance with Russian exchanges Micex and RTS according to the Financial

Times. Deutsche Bourse are aiming to take business away from London and Hong Kong which, up to now, have done well in attracting Russian IPO's.

ICAP announced after the close on Friday that total electronic broking volumes for November reached $827.7bln up 30% year on year.

Dividend Paying Companies

ABB – ABB announced the acquisition of Baldor Electric of US for $3.1bn, while also assuming $1.1bn of the target's debt. Baldor is a major US manufacturer of industrial electrical motors, drives and generators as well as mechanical power transmission products. The acquisition is expected to significantly strengthen ABB's North American industrial customer base and give a boost to the company's automation solutions business.

ABB expects synergies of more than $200mm annually in terms of improvement in the earnings before interest, taxes, depreciation and amortization (EBITDA). Most observers agree that the $63.50 a share offered, a 41% premium over Baldor's closing price on November 29, fully values the company, while at the same time providing ABB with key strategic benefits, the company being able to deal with its underexposure to North American markets. A new drive for increased energy efficiency will see a number of new rules for energy efficiency going in effect in the near term, requiring buyers to choose an energy efficient motor for certain applications. The new legislation is expected to drive 10% to 15% growth in the US high efficiency market, as per ABB comments.

ABB will retain significant financial flexibility, being expected to have excess cash past the closure of the deal. Smaller acquisitions in the power business are most likely. S&P announced ABB's 'A' rating and 'Stable' outlook will remain unchanged.

Carrefour – An internal audit at the retailer's hypermarket Brazilian business, which dealt with a number of accounting irregularities, concluded with a €550mm write-down. The non-cash expense deals with shortcomings in its Brazilian hypermarket business over the previous 5 years and is broken down into €280mm provision for litigation on tax and employee matters, €110mm inventory write-down, €75mm asset depreciation, €57mm supplier credit write-offs and other accounting adjustments of €28mm. The company issued a profit warning, as the business conditions in developed Europe were weaker than expected. The company's underlying operating profit is now expected to be €3bn from the previous guidance of over €3.1bn. At the same time the management re-iterated its commitment to turning around the hypermarket business in its key European markets and announced that the roll-out of its 'Carrefour Planet' re-vamping program is continuing as planned.

Economic Activity, Consumer and Business Conditions

US – A meagre 39,000 job addition in the US non-farm payroll employment caused the overall rate of unemployment to move higher to 9.8% from 9.6%, confirming the jobless recovery trend of late. The consensus expectations were for a 140,000 jobs improvement. The amount of slack in the labour market is emphasised by a lower average weekly hours number, at 33.5 in November from 34.3, while the average hourly earnings stagnated in the month.

The Institute for Supply Management (ISM) leading indicators for November helped brighten the otherwise gloomy economic backdrop, with the manufacturing index coming in just above the expectations at 56.6, while the services index also beat the expectation with a 55.0 print. Of note, the pending home sales report for October revealed a 10.4% improvement, a breath of fresh air for the battered US housing sector.

Canada – The Canadian current account deficit opened to $17.5bn, the lowest ever recorded, as the country's exports are seriously hampered by the slow US recovery coupled with an un-welcome strength of the dollar. Such a performance, puts the current account deficit at more than 4% of GDP and is uncharacteristic of Canada.
However, the Canadian unemployment rate fell to 7.6% from 7.9% in October, helped by a 15,200 jobs addition in November, yet even more so by a drop in the labour force (down by 43,000) as the participation rate hit the lowest in 8 years, at 66.9%.

ECB: stepped up bond purchases to calm markets, buying Portuguese and Irish bonds in €100m tranches – much bigger than previously. The moves sharply brought down the cost of borrowing for Lisbon and Dublin and sparked a euro rally last week. The eurozone bail-out fund will issue bonds next month to provide emergency loans to indebted nations. The European Financial Stability Facility is expected to raise between €5bn and €8bn in bonds in a triple A rated deal, which will be the first bond issued by the eurozone as one entity, to fund aid to Ireland. The EFSF will raise €17.7bn over three years as part of the aid package for Ireland that was agreed earlier last week when it became the second eurozone nation after Greece to seek financial help.

Spain : The Spanish President Mr Zapatero announced last week in the Parliament a new stimulus package. The key highlights announced include: the privatization of 49% of AENA (owner of Spain's airports) including the creation of a concession agreement for Madrid and Barcelona airports, the privatization of 30% of the government lottery body, a reduction on corporate tax for small sized companies, the ability to freely depreciate assets until 2015 within the corporate tax, and the elimination of the € 426 subsidy for long term unemployed people.

Hungary announced a 25bps rate hike last week to 5.5% to protect weak currency and to curtail inflation (impact of lower tax cuts). Hungary is in the midst of potentially raising taxes on financial, energy, retail and telecommunications industries and using private pension funds (recent decision to nationalize the defined contribution plan should bring in HUF ~360bn, ~100bps GDP) to plug budget holes created by switching to a 16 percent flat personal income tax in 2011.

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 2.51% and the U.K.'s 2 year/10 year treasury spread is 2.39% - 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 (149 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 4.46% - (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 18.80 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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