



Forthcoming Recirculation

We intend next week to start re-circulating some shares of Copernican British Banks (CBB) and on behalf of Manulife, some shares of Copernican World Financial Infrastructure (CIW). In our view this recirculation offers an opportunity particularly to investors looking to hold a position in CBB for at least 4 years – as, at that time, there will be no retraction fee.

News Highlights on Current Holdings

- AXA intends to voluntarily delist its American Depositary Shares (“ADS”) from the New York Stock Exchange and to voluntarily deregister with the U.S. Securities and Exchange Commission (“SEC”) during the first quarter of 2010.
- AXA intends to maintain its US ADR program as a “level one” program which will permit AXA’s current ADR holders and other US investors to continue holding and trading AXA ADRs in the US over-the-counter market.
- Henri de Castries, AXA’s Chief Executive Officer, said, “The Group has derived a number of important benefits from its NYSE listing since 1996 however trading volumes and liquidity on the NYSE, however, have not developed to the level we had hoped when we initially listed.
- The NYSE has represented a small portion of the Group’s global trading volume (currently less than 5%) and the market has not developed sufficient liquidity to be attractive for most institutional investors who continue to prefer the liquidity of AXA’s primary trading market on Euronext Paris. After considering all the pros and cons very carefully, AXA came to the conclusion that this decision is the right move for the Group at this stage in its evolution because the burdens of maintaining their NYSE listing and registration seem disproportionate to the benefits they have derived.
- Prudential PLC is cutting back in developed markets to focus on growth in developing Asian countries including Malaysia, Vietnam and Indonesia, the London-based Sunday Times reported, citing CEO Tidjane Thiam.
- In terms of his views on the main geographies that the Prudential operates in, Thiam was very keen to differentiate parts of Asia from others over their growth potential. Overall:
- India & China – the Pru will maintain a presence but pull the foot off the accelerator, as restrictions on foreign ownership of financial firms are unlikely to be relaxed. We’ve seen anecdotal evidence of this strategy for a while in China, but for India it is a new strategy, which makes sense as the bigger they are the more expensive it will be to take out its partner ICICI if ever the legislation changes.
- Indonesia, Malaysia and Vietnam – management plan to accelerate here hard - the new big emphasis on these at the group level is new. They have been, however, already pushing Indonesia quite hard recently with a recent acquired life insurance business increasing their scale in Indonesia
- Japan and Korea – reducing exposure - Japan has just closed to new business recently. Korea has been problematic for a while, with slow growth and high capital consumption. Some regulation has also been problematic in this market. The decision to pull back in Korea is, however, new.
- USA – little change in strategy – seen as a cash-cow for the group, with bolt-on acquisition potential.
- UK – some added certainty here, with Thiam saying that they will keep as it is their cash cow.
- BBVA is expected to acquire Credit Uruguay (Credit Agricole’s Uruguayan unit). The new entity will rank second in the country, with expected market share of approximately 20% in loans.
- German conglomerate Siemens posted surprise profit growth in the first quarter helped by cost-cutting, and said it would review its 2010 outlook after the strong start to the year.... Siemens reported Q1 EPS €1.68 vs Bloomberg €1.08 and year ago €1.39.....Company reports Q1 revenues of €7.35B vs Bloomberg €7.83B and year-ago €9.63B. Adjusted Q1 EBITDA from continuing operations €2.69B vs year ago €2.59B.
- BBVA - Reports 4Q09 net profit of €1mn, well below expectations essentially because of the net goodwill writedown of its US franchise (i.e. Compass) of €05mn. BBVA say that adjusting for the one-offs, net profit was €1.08bn, almost flat y/y. There were also €00mn of early retirements in the quarter, €0mn negative impact from “hyperinflation” in Venezuela, and various higher charges from boosting provisions in Spain (real-estate developers) and the US (commercial real-estate). While we remain cautious on the domestic Spanish outlook, we believe BBVA (and Santander) offer above-average earnings power over the cycle, partly driven by LatAm exposure (Mexico/Brazil).



- HSBC - CEO Michael Geoghegan told reporters in Hong Kong last week that the Obama proposals to rein in risks and reduce the size of U.S institutions will “not affect us that much.”
- South Korean President Lee Myung Bak on his visit to India, wants to enlist Prime Minister Manmohan Singh’s support in clearing the way for steelmaker Posco to proceed with its Indian investments, Business Week reports. Because of local opposition, Posco’s \$12B project plans to build India’s largest steel mill in the city of Orissa has suffered extensive delays and Posco hasn’t even secured a 4,000-acre property promised for the steel plant. A Posco spokesman said the company expected the Indian project to gain momentum after Lee’s visit.
- On 21 January, Toyota announced a US recall of eight models totaling 2.3mn vehicles due to accelerator issues. It then followed this by announcing on 26 January that it will suspend dealer sales of those models and also halt their production at five local plants for one week starting 1 February. Quality issues, including the previous recall of 4.2mn vehicles for floor mat problems, are now likely to affect 2010 operating profit by approximately ¥100bn (or ¥20 per share). This news is likely to be a major hindrance to share-price growth until the company officially releases details of its solution to these quality problems. However, since management has taken appropriate action at this time, we believe the issue will have only a minor impact on new car sales and earnings from 2011. We maintain our Buy rating. In estimating the impact on Toyota’s earnings, its assumed the sales suspension will last three weeks and that all customers will turn to competitors such as Honda or Nissan, resulting in an opportunity loss of 90,000 vehicles (or ¥68bn). If the parts in question (which USA Today reports to be accelerator pedal sensors manufactured by CTS of the US) can be supplied promptly, the impact should be minimized. The eight models in question accounted for 56% of the 1.77mn vehicles recorded by Toyota in US retail sales in 2009. Risks include the possibilities that producing replacement parts may take extra time and effort and that the company may suspend sales in Europe as well.

Economic Activity, Consumer and Business Conditions

Prospects for the Eurozone:

- **GDP:** significant recovery in three stages. After the worst recession in 60 years, the Eurozone started to rebound in 3Q. The UK probably followed suit in 4Q. Across Europe, we expect a vigorous recovery in three stages, driven by (1) global re-stocking in late 2009, (2) a rise in business investment in early 2010 and (3) more consumption from mid-2010 onwards.
- **Inflation or deflation?** Neither. After an oil-driven dip below zero in many countries in mid-2009, headline inflation turned positive again in late 2009. We see no serious risk of a deflationary spiral across Europe and look for moderate inflation in 2010 and 2011.
- **Fiscal deficits:** The severe recession and the fiscal stimulus programs are creating a sea of red ink. We expect 2010 deficits in the range of 2.5% (Switzerland) to 11% (UK).
- **Monetary Policy:** tiptoeing towards the exit. We expect policy rates to stay close to zero in Switzerland and Sweden until the end of the summer. The next ECB move will probably be a 25bp hike in September. We look for the Bank of England to raise rates 50bp in November 2010.

Standard & Poor’s on Tuesday threatened to cut Japan’s rating unless it produced a credible plan to rein in its soaring debt and lift growth in an economy plagued by persistent deflation.

Britain crept out of recession in the fourth quarter of 2009 but only just – official figures showed growth of 0.1% - a far weaker growth rate than expected, suggesting any monetary tightening remains a long way off. The contraction of 6.1% from the beginning of the downturn in the second quarter of 2008 to 3rd quarter 2009 makes the recession the deepest since records began in 1955. It will be some months before it becomes clear whether 4th quarter growth was as paltry as it now appears. Revisions are likely as the estimated 3Q contraction has already been revised upwards from -0.4% to -0.2%. Corrections for the 4th quarter will probably also be positive. Employment data, production indices and business surveys all hint at a stronger recovery at the end of 2009 than do the new output figures and consumers have started paying down debts. However this means demand must come



from abroad – and with sterling depreciating approximately 22% since mid 2007, this should help ease the country's shift from domestic to foreign demand...but this will take time as although the contraction is over, recovery has not yet arrived.

Financial Conditions

Policymakers continue to accommodate a recovery in bank profits. The U.S. 2 year/10 year treasury spread is 2.78% and the U.K.'s 2 year/10 year treasury spread is 2.67% - enabling financial services companies' assets booked at these levels, to be very profitable, so enabling them to accelerate the absorption of anticipated consumer credit losses.

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 regional banks – rather than larger more diversified global financial services companies. The number of small U.S. banks failing continues to grow (15 to-date in 2010 and 140 in 2009) but their 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.

A concern which remains is the extent to which loan modifications are an exercise in loss deferral but 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 23.7 substantially below the levels experienced last August/September (and well off the highs of 70-80 witnessed late September/October). While, by its characteristics, the VIX will remain volatile, it is we believe further evidence of markets reacclimatizing to risk – typically we believe a VIX level below 25 augurs well for quality equities. And credit default swaps across most leading financial companies are trading in a gradually improving range of 1%-2% (compared to 5%-7% late September/early October).

Cash on Sidelines – we understand that US money market funds as % of market cap are currently 25% versus 18% long-term average.

As often repeated and borne out by last week's news, we believe the largest impediment to a sustainable rally remains government intervention, not the global economy.

We believe the next few years will highlight the growing polarization between strong and weak institutions. Financial services 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. Financial services companies that have breached client trust will keep losing business to those reputations that have been enhanced by the crisis. We believe all the Funds are extremely well positioned to benefit from the strength of their portfolios of strong, dominant, attractively priced financial services companies.

Market Commentary



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Closed-End Funds

Spreads on the closed-end funds are narrowing but remain wide and so in our view are very attractively priced to purchase. We will early next month be looking to re-circulate some shares of Copernican British Banks (CBB) and on behalf of Manulife, some shares of Copernican World Financial Infrastructure (CIW).

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>.

The details published last Friday are replicated here below from which you can see we also highlight whether the funds share prices are trading at a premium or discount to their respective Net Asset Value.

A handwritten signature in black ink, appearing to read "Chris Wain-Lowe".

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