Market Commentary

PORTLAND INVESTMENT COUNSEL™

April 11, 2011

Recirculation of shares in Global Banks Premium Income Trust (GBP.UN)

The Global Banks Premium Income Trust's portfolio of securities has risen since March month end, enabling the recirculation price to be at a discount to its current net asset value.

The GBP.UN fund is now being re-circulated, closing no later than April 14th. We have attached the most recent client fund brief.

News Highlights on Current Holdings

Financial Services Companies

Investment banks: Dealogic have published their analysis of the majors' performance for 1Q11 YoY comparatives look good in our opinion, with revenues up 19% year on year.

Completed Global M&A volume up +26% sequentially (+62% YoY); Announced/Completed Ratio declined to 1.3x from 1.4x in Feb. as Completions rose more than Announcements. Net realized M&A revenue up +16% vs. Feb. (+32% YoY); Global Announced M&A volume up +20% (+23% YoY). Unrealized M&A fee backlog down -2% to $7.5B in Mar. (+40% YoY).

Global Equity U/W volume up +53% vs. Feb. (+4% YoY). Strength was largely in US equity issuance, up +165% vs. Feb (+85% YoY), with European Equity Underwriting underperforming other regions, down -21% vs. Feb. (-6% YoY). Filed US Equity backlog down -5% from Feb., with more lucrative IPO backlog down -2% seq. (+108% YoY). Estimated Global Equity Underwriting net revenues up +54% vs. Feb., with strength in US issuance (+104%) partially offset by weakness in Europe (down -38%).

Global debt Underwriting volume up +20% vs. February (-10% YoY) reflecting strength across all regions, with US volume up +13% vs. Feb., and non-US up +22% seq. US Investment Grade debt volume up +46% seq. (+5% YoY); US High Yield volume up +69% seq. (-6% YoY); Asset Backed Securities volume down -14% vs. Feb. (-45% YoY); Mortgage Backed Securities volume down -56% vs. Feb. (-62% YoY). Estimated Underwriting net revenues in US Fixed Income: Investment Grade, +47% seq. (-14% YoY); High Yield, +75% vs. Feb. (-4% YoY).

Sample Market Share – 1Q 2011

(percentages do not tally to 100% as reported transactions are duplicated by the banks)

Completed M&A		Equity Underwriting (US)		Equity Underwriting (Non-US)	
Morgan Stanley	39.3%	Goldman Sachs	17.9%	Goldman Sachs	9.0%
Goldman Sachs	29.7%	Citigroup	11.1%	Citigroup	6.8%
Citigroup	29.7%	Barclays	9.6%	Deutsche Bank	5.3%
Bank of America	29.2%	JP Morgan	9.5%	Morgan Stanley	5.3%
JP Morgan	25.8%	Bank of America	9.4%	UBS	5.3%
UBS	17.9%	Credit Suisse	8.6%	Credit Suisse	4.5%
Deutsche Bank	14.5%	Deutsche Bank	8.5%	Citigroup	3.8%
Credit Suisse	13.3%	Morgan Stanley	8.4%	JP Morgan	3.8%
Barclays	12.8%	UBS	3.3%	Barclays	2.3%

The percentage gains in the UK banks are supportive of our core investments in Barclays and HSBC which are 2 of the top 3 euro gainers.

European banks' YoY volume : Barclays +49%,Credit Suisse +37%, HSBC +21% BNP Paribas +15% RBS +7%, UBS flat.

Barclays – The Financial Times wrote an article last week suggesting Protium, a £7.5bn portfolio of toxic assets spun off to former employees in 2009 and backed by a loan from Barclays could be a key swing factor in Barclays year-end profit. The report suggests the market fears several hundreds of millions more in charges after already taking a £532mn charge which could lower the Return on Equity below 7% before rising again in 2012. The article believes CEO Bob Diamond's 2013 15% ROE target would then be too demanding. Barclays have not commented.

Goldman Sachs is pushing ahead with the full buyout of the 55% stake in its Australian offshoot it does not already own (from JBWere) , in a deal valuing the business at almost A$1 billion (US$1.04bn). To move ahead with the acquisition, Goldman Sachs will need the approval from 75% of the Australian arm's shareholders.

ING – Bloomberg reports SJB National Bank, Capital One are among firms that have expressed interest in ING Direct. GE & CIT Group have previously been mentioned. Unnamed sources say ING is in talks with several potential bidders.

Macquarie Group announced that the Executive Chairman of Macquarie Capital and Macquarie Securities Group, Mr Michael Carapiet, will retire in July after 22 years with the company. Roy Laidlaw, currently Group Head of Macquarie Capital and Macquarie Securities, will replace Mr Carapiet in the role of Executive Chairman of Macquarie Securities and will continue as

Group Head of Macquarie Capital. Stevan Vrcelj, currently Head of Cash Equities, has been appointed Group Head of Macquarie.

Santander has lost two more executives adding to several defections since the Spanish bank's UK chief executive, Antonio Horta-Osorio, moved to Lloyds banking group in January, encouraging two of his colleagues to come with him. Virgin Money has poached Mark Selby, retail integration director at Santander, who will become Virgin's chief operating officer in July and Chris Daniel, Santander's retail programme manager, who will join Virgin as group property director later this month.

Standard Chartered may look to bid for Old Mutual's 52% stake in Nedbank

Financial Infrastructure

Australian Stock Exchange : Singapore Exchange's bid for the Australian Stock Exchange has been turned down by the Australian Government as being against the national interest. It would however appear as though other combinations would be considered.

Deutsche Boerse: following Nasdaq OMX / ICE's offer for NYSE it is difficult to see how Deutsche Bourse DB1 can match this hostile bid for NYSE, The DB1/NYSE merger had targeted synergies of 16.5% of the combined cost base whereas the The NDAQ/ICE / NYSE deal is targeting synergies totalling 33% of the combined cost base! However there are more anti-trust issues in this combination. Ultimately we expect Deutsche Bourse to improve their offer but not to an equivalent level however we think this will still be recommended by NYSE and for the outcome to come down to a shareholder vote. Deutsche Boerse indicated they will wait until bid target NYSE Euronext responds to the rival approach from Nasdaq and Intercontinental Exchange before considering raising its own offer.

Dividend Paying Companies

Bayer – Bayer's pharma business revealed the results of the Magellan study on its key drug Xarelto (rivaroxaban) in preventing Venous Thromboembolism (VTE) in patients at risk due to acute medical illness. The study met its efficacy endpoints, yet it failed to meet the required safety profile, the drug showing an increased bleeding rate. The company concluded that a consistent net clinical benefit had not been seen across the study population. However, the result of this study is not expected to impact the approval of the product in the all-important stroke prevention of patients with atrial fibrillation.

Novartis – Novartis announced it had agreed to sell to Meda the global rights to manufacture, market and sell Elidel, a mild to moderate atopic dermatitis treatment. The deal includes an upfront payment of $420mm. The divestiture of Elidel is consistent with the company's strategy of focusing on core therapeutic areas in its pharma business and represents a de facto exit of the dermatology business.

Seven&i – Seven&i, the Japanese convenience store behemoth, reported its full year results for the fiscal year ended in February of 2011, with a consolidated operating profit of ¥243bn (approximately $2.9bn) higher by 7.4% year on year and roughly in line with the expectations. The robust result was driven by the profitability of the convenience stores, yet other business areas, such as superstores and department stores also contributed to the operating profit growth. The food services business reported lower losses, while the financial services profit declined. The management estimates a flat operating profit for the current fiscal year, after accounting for the effects of the recent earthquake and tsunami.

Toyota – The leading global vehicle manufacturer announced it will begin manufacturing two more car models, the Corolla Axio and Raum, starting today, April 11th, at the Central Motor's plant in Sagamihara, south of Tokyo. Toyota has restarted production of Prius and Lexus vehicles at Tsutsumi and Kyushu factories in central and southern Japan. A full recovery of production at Japanese automakers is expected to take a few months.

Wesfarmers – The metallurgical coal price for the production at Curragh has been set at $328/tonne, an impressive 53% increase compared to the met coal pricing for the first previous quarter, as demand from developing Asian nations remained strong and output was impacted by rain and cyclones. The management stated that volumes at Curragh will end up towards the lower end of the 5.8 to 6.2 mm tonnes initial guidance, as the open pit exploitation is recovering from earlier Queensland floods.

BHP Billiton has announced the successful completion of its off-market tender buy-back (Off-Market Buy-Back) of BHP Billiton Limited shares. The final transaction size of A$6.0 billion (US$6.3 billion) has enabled BHP Billiton Limited to buy back 147 million shares, which represents 4.4 per cent of the issued share capital of BHP Billiton Limited (listed in Australia) and so approximately 2% of the dual listed entity.

Vodafone: has sold its 44% stake in the French mobile business SFR, to Vivendi for E 8bn. Vivendi now owns SFR. Vodafone indicate the price achieved values SFR at 6.7x last year's earnings – a 24% premium to the sector,,, and is further significant evidence of the still relatively new management's focus on shareholder value. Its anticipated that with Verizon Wireless (45% owned by Vodafone) expected soon to pay dividends downstream that Vodafone's capacity to return finds to shareholders has now significantly increased together with its ability to pay down debt. Last month Vodafone did pay £3.1 billion to buy out the minority stake in Vodafone Essar – one of 15 operators in India – but its market share is increasing and the market is growing, such that we endorse management's view that 'the excitement for Vodafone's controlled operations in the next couple of years will be coming from emerging markets".

Economic Activity, Consumer and Business Conditions

The ECB hiked rates 25 bps to 1.25% last Thursday, as expected. The decision was unanimous and policymakers didn't decide if this is the first in a series of hikes. ECB President Trichet took a less hawkish tone in the press conference, not repeating the ECB's strong vigilance (as he stated one month ago). He noted that the rate hike was warranted due to the continued upside risks to the inflation outlook. The ECB wants to ensure that inflation expectations remain well anchored and that there are no second-round effects from the recent above-target inflation rate. The ECB's other policy pillar, M3 money supply, is expanding at a moderate rate, though the ECB believes that the ample liquidity already in place could accommodate price pressures.

On the economic front, Trichet said that underlying economic momentum is positive, and risks to the outlook are broadly balanced, though uncertainty remains elevated. The ECB expects an increasing contribution from private sector demand.

US – The non-manufacturing activity index (NMI) by the Institute for Supply Management, the services oriented equivalent of the purchasing managers index (PMI) focused on manufacturing, retreated more than expected in March, to 57.3, compared to February's value of 59.7. The reading however still signals expansion ahead for the services sector. The key NMI index components of business activity, new orders and employment all pointed to slower growth.

On the jobs front, a relatively benign reading for the initial jobless claims is keeping hopes alive for a rebound in employment. The weekly claims, at 382,000 were marginally better than the expectations of 385,000 claims and the previous week's reading of 392,000 claims. The four week average retreated to 389,500 from 395,250.

Financial conditions are slowly improving, as evidenced by better than expected increase in the consumer credit, higher by $7.62bn in February, significantly higher than the expected $4.70bn improvement.

Canada – The most recent Canadian employment report disappointed as 1,500 were lost by the economy in March, against expectations of a 26,500 jobs additions and compared to February's 15,100 improvement in payroll. However, positive developments were registered, including a strong full-time jobs growth and ad improvement in the total hours worked. The headline unemployment rate retreated to 7.7%, as expected, although for the wrong reasons, as people dropped from the labour force.

Portugal finally applied for help from the EFSF(Stability Fund) , this comes after the country was forced to pay 5% on short term money early last week. The government, which has thin cash reserves, must repay EUR4.2bn in debt due later this month, and an additional EUR4.9bn in mid-June, right after the country holds general elections, scheduled for June 5. We await details of the size (expected to be EUR 75bn) and format.

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 2.78% and the U.K.'s 2 year/10 year treasury spread is 2.42% - 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 (29 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 4.87% - (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 17.87 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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