

Canadian Preferred Shares Report

Three Quarters Down, One to Go

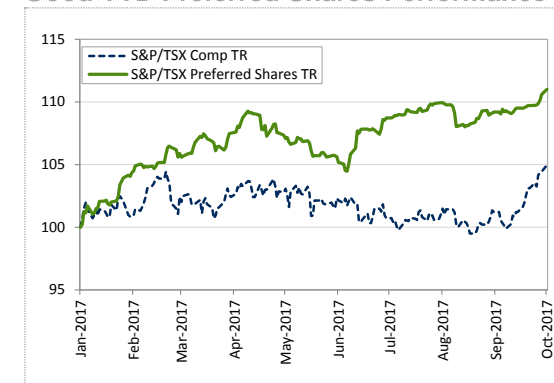
After a good start in the first half of the year, Canadian preferred shares continued their positive performance into the third quarter posting a total return of 1.73% vs the S&P/TSX Composite TR at 4.45%, and the FTSE TMX Canada Universe at 0.50%. Year-to-date, prefs have been one of the top performing asset classes in Canada with a total return of 10.60%, easily beating both domestic equities and bonds.

Over the past 18 months preferred shares have been on an impressive run. This was primarily driven by the Government of Canada (GoC) 5-year yield which had risen nearly 1% over the same time period off near-record lows. In the beginning of the period, the rise in the GoC 5-Year yield was due to a strong Canadian economy along with a nice recovery in the price of oil. More recently, the latest surge in the yield came from two rate hikes by the Bank of Canada (BoC) in the Q2-2017.

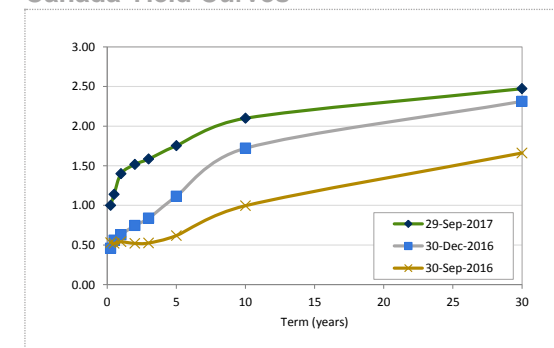
At the latest BoC rate announcement on October 25, rates were left unchanged as expected and the possibility of the third rate hike in December looks to have been pushed out until next year. With a less hawkish tone out of the BoC, we expect yields, in particular for the GoC 5-year, to be marginally lower and consolidate by year end. The quick rise in yields over the past 12 months add to this expectation.

We continue to favour fixed-resets over perpetual preferred shares with the GoC 5-year yield in a new and much higher trading zone from a year ago. Also, taking advantage of fixed-resets that will have their dividends reset higher near-term is a good way to enhance yield in a fixed income portfolio.

Good YTD Preferred Shares Performance



Canada Yield Curves



Phil Kwon
Fixed Income

Source: Bloomberg, Raymond James Ltd.

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Please read domestic and foreign disclosure/risk information beginning on page 10.

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The Rest of the Year

This has been a great year so far for preferred shares with a total return of 10.60% as of the end of the third-quarter. Looking ahead to the final quarter of 2017 we are expecting more of a sideways market in terms of prices, but a positive total return including dividends. Below are some positives and negatives we expect to see from the fourth quarter:

- **Positive on yields:** Over the past year the GoC 5-year yield has gone up nearly 1% to 1.70% and is now at a level that is a positive for fixed-reset preferred shares. Even if the GoC 5-year yield was to drop to 1.50% we would still see over half of fixed-resets increasing their dividends at the next reset date (see below).

New Levels for GoC 5-Year Yield Positive for Dividend Increases

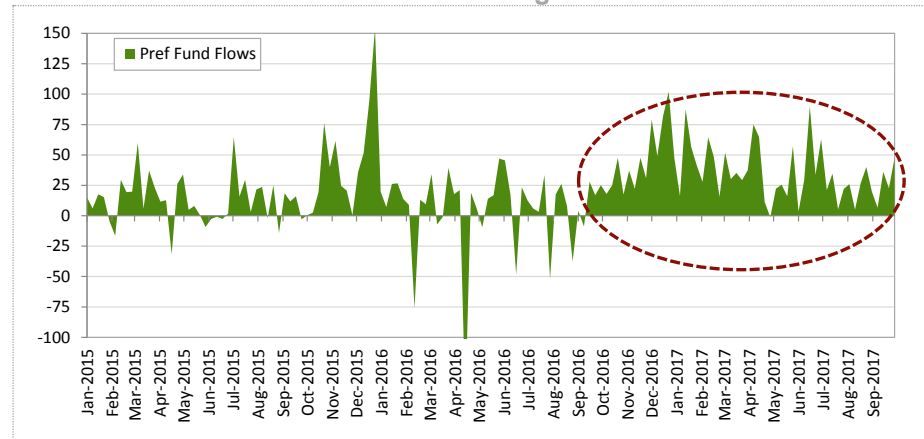
GoC 5-Year Yield (%)	# of Issues Increasing Dividend at Next Reset Date	Avg Increase of Dividend	Avg Increase of Issue Yield
0.75	33 (16% of fixed-resets)	\$0.02	0.08%
1.00	76 (37%)	\$0.06	0.22%
1.25	102 (49%)	\$0.10	0.39%
1.50	120 (58%)	\$0.14	0.56%
1.75	172 (83%)	\$0.15	0.61%
2.00	193 (93%)	\$0.19	0.78%

Source: Bloomberg, Raymond James Ltd. As at October 23, 2017.

- **But slightly negative on yields in the short term:** With two rate hikes under the BoC’s belt we have seen yields across the curve move higher very quickly. At one point we even saw the 5 and 10-year yields surpassing those of the US which they haven’t done in quite some time. Over the shorter term, we are expecting the 5-year yield to move lower and consolidate for the remainder of the year. The BoC may also be feeling that things are moving a little too quickly as the tone for a third hike in December became very dovish in mid-October when BoC Governor Poloz stated that Canada’s economy may be entering into a “sweet spot” of the business cycle where it can run at a faster pace without triggering inflation pressure. Overall, this may put some negative pressure on fixed-reset preferreds.
- **Positive on ETF flows:** Fund flows into preferred share ETFs remained strong throughout the third-quarter and we believe will continue into the fourth.

With many preferred share ETFs available, more investors have opted to choose using this approach rather than managing their own pref portfolio.

Preferred Share ETF Flows Remain Strong



Source: Bloomberg, Raymond James Ltd.

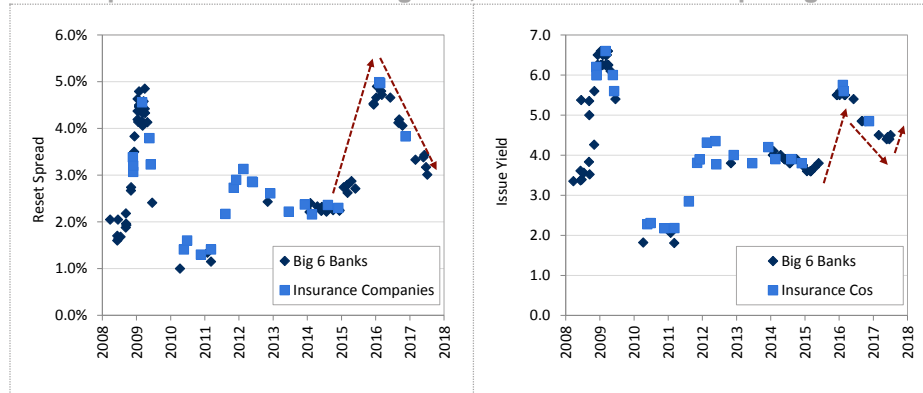
Why Has Issuance Dried Up?

As kids return back to school and summer doldrums end, September and October are usually filled with a decent flow of preferred shares new issues. However, this doesn’t seem to be case this year, as we have only seen one synthetic and one fixed-reset new issue since the beginning of September. There are several reasons that may be contributing to a lower level of issuance:

- **Almost all of the non-NVCC (non-viable contingent capital) bank preferred shares have been called:** In 2011, OFSI announced that banks must issue preferreds with a NVCC clause to deem it tier 1 capital. Banks have been progressively issuing more NVCC preferred shares and calling in their non-NVCC issues. The only ones that are now left are those with extremely low reset rates and the banks don’t seem to be rushed to call these securities since their reset spreads are very low.
- **Resets spreads have tightened, but issuing yields now have to increase:** Over the past two years the Canadian economy has improved, leading to two rates hike in the past several months. This is also the two year anniversary of when minimum yield fixed-resets were introduced. Over this time, new issue reset

spreads have tightened significantly reducing issue yields as well. However, with the GoC 5-year yield moving higher over the past year, we have come to the point where the sum of the 5-year yield and reset spread (in total, the issue yield) has begun to rise. This movement makes issuing preferreds more expensive and may be keeping some companies on the sidelines.

Reset Spreads Continues to Tighten, but Issue Yield Bumps Higher



Source: Bloomberg, Raymond James Ltd.

- **New type of tier 1 Capital:** In the beginning of October, a new hybrid security came to market that has similar characteristics to preferred shares, is legally debt, and the money raised classifies as additional tier 1 (AT1) capital. The other benefit is that the structure helps avoid a tax on passive income for non-Canadian residents, which means it can be sold outside Canada.

Portfolio Positioning

Preferred shares, in particular fixed-resets, have performed extremely well in the past 18 months. Despite that we believe the GoC 5-year yield will be marginally lower in the near term, we feel being overweight fixed-resets over perpetuals (vs the benchmark) is the key to taking advantage of the overall rising rate environment. Below are a few guidelines to position your preferred share portfolio for Q4-2017.

- **Underweight high-reset preferreds:** In late 2015, non-bank companies began to issue prefs with minimum/floor yields and high resets. In response, banks who can't issue with minimums were issuing at very high yields to stay

competitive. These are all now trading at premiums and have a high likelihood of being called at their next reset date. Despite paying a nice dividend, you may encounter a capital loss (most are trading at premiums) if they do get called making the total return mediocre.

- **Buy issues which are being reset in the near term:** With the dramatic rise in the GoC 5-year yield, there are issues that are coming to their reset dates in the near term that have the enviable position of having an increase to the dividend. Unlike 2015 when a lot dividends were being reduced, we are now in an environment where dividends will likely go higher for fixed-resets.
- **Increase your risk tolerance with the same issuer:** By moving to a pref with lower rate reset, the risk is increased due to potential volatility of the dividend but there is lower probability of the issue being called. This move is to take advantage of the lower priced issue which will give a better total return to the next reset date.

Utilizing some of the strategies mentioned, here are some switch ideas to help enhance total return. Keep in mind that the prefs that are being sold are not unfavourable, but are fully valued and there are better options for upside potential in this environment.

Symbol	Div Yield	Price	Reset Date	Reset Spread	Notes
BCE.PR.O	\$1.065 4.25%	\$25.08	Mar-2022	+3.09%	▪ BCE.PR.O has high probability to be called with YTC = 4.24%
BCE.PR.Q	\$1.063 4.46%	\$23.08	Sep-2018	+2.64%	▪ With a GoC 5-year yield of 1.7%, BCE.PR.Q dividend will go to \$1.085.
MFC.PR.R	\$1.213 4.64%	\$26.13	Mar-2022	+3.83%	▪ MFC.PR.J has high probability to be called with YTC = 3.82%
MFC.PR.J	\$1.000 4.03%	\$24.82	Mar-2018	+2.61%	▪ With a GoC 5-year yield of 1.7%, MFC.PR.J dividend will go to \$1.078.
RY.PR.J	\$0.900 3.60%	\$25.00	May-2020	+2.74%	▪ RY.PR.J has high probability to be called with YTC = 3.85%
RY.PR.H	\$0.975 4.03%	\$24.19	Aug-2019	+2.26%	▪ With a GoC 5-year yield of 1.7%, RY.PR.H dividend will go to \$0.99.

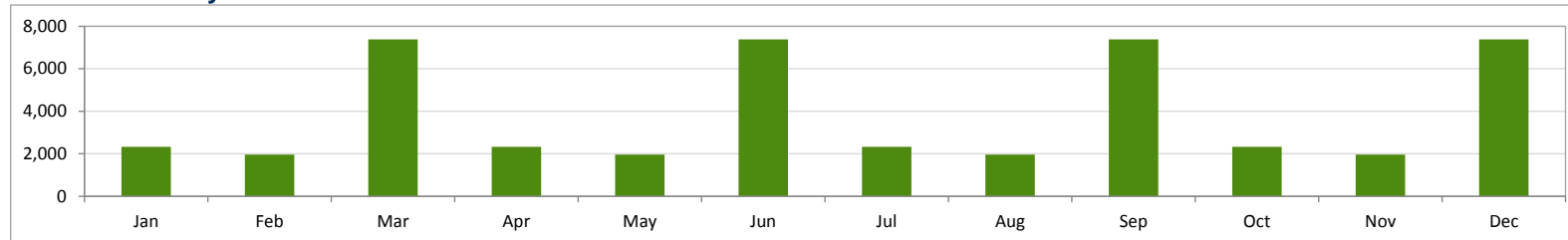
Source: Bloomberg, Raymond James Ltd. Sell = ■, Buy = ■. Prices as of October 23, 2017.

Highlights: Sample Portfolio

Issuer	General Information		Rating	Pricing			Dividend		Possible Calls			Shares	Value	Weight	
	Series	Symbol	DBRS	Par	Last	Current Yield	Annual	MMMM-DD	Date	Price	YTC				
Fixed Reset															
BCE INC	AQ	BCE.PR.Q	Pfd-3	\$25.00	\$23.79	4.47%	\$1.06	MJSD-31	30-Sep-2018	\$25.00	10.26	4,000	\$95,160	9.6%	
BROOKFIELD RENEWABLE PAR	7	BEP.PR.G	Pfd-3H	\$25.00	\$25.52	5.39%	\$1.38	JAJO-31	31-Jan-2021	\$25.00	4.73	4,000	\$102,080	10.3%	
ENBRIDGE INC	N	ENB.PR.N	Pfd-3H	\$25.00	\$21.40	4.67%	\$1.00	MJSD-1	01-Dec-2018	\$25.00	19.43	4,000	\$85,600	8.6%	
FAIRFAX FINL HLDGS LTD	K	FFH.PR.K	Pfd-3	\$25.00	\$23.87	4.89%	\$1.17	MJSD-31	31-Mar-2022	\$25.00	5.98	4,000	\$95,480	9.6%	
HUSKY ENERGY INC	5	HSE.PR.E	Pfd-2L	\$25.00	\$24.66	4.56%	\$1.13	MJSD-31	31-Mar-2020	\$25.00	5.01	4,000	\$98,640	9.9%	
MANULIFE FINANCIAL CORP	11	MFC.PR.J	Pfd-2	\$25.00	\$24.76	4.04%	\$1.00	MJSD-19	19-Mar-2018	\$25.00	6.35	4,000	\$99,040	9.9%	
ROYAL BANK OF CANADA	BB	RY.PR.H	Pfd-2	\$25.00	\$23.80	4.10%	\$0.98	FMAN-24	24-Aug-2019	\$25.00	6.65	4,000	\$95,200	9.6%	
TRANSCANADA CORP	11	TRP.PR.G	Pfd-2L	\$25.00	\$24.05	3.95%	\$0.95	JAJO-30	30-Nov-2020	\$25.00	4.92	4,000	\$96,200	9.7%	
Perpetuals															
INTACT FINANCIAL CORP	6	IFC.PR.F	Pfd-2	\$25.00	\$24.85	5.33%	\$1.33	MJSD-31	30-Sep-2022	\$26.00	6.35	3,000	\$74,550	7.5%	
POWER FINANCIAL CORP	R	PWF.PR.R	Pfd-2H	\$25.00	\$25.70	5.35%	\$1.38	MJSD-1	27-Nov-2017	\$26.00	32.42	3,000	\$77,100	7.7%	
ROYAL BANK OF CANADA	BJ	RY.PR.P	Pfd-2	\$25.00	\$25.47	5.15%	\$1.31	FMAN-24	24-Feb-2021	\$26.00	5.62	3,000	\$76,410	7.7%	
TOTAL															
													4.69%	\$995,460	

Issuer	General Information		Quarterly	Annual	
	Series	Symbol	Income	Income	
Fixed Reset					
BCE INC	AQ	BCE.PR.Q	\$1,063	\$4,250	May be reset to GoC 5-year yield + 2.64% on September 30, 2018 or redeemed.
BROOKFIELD RENEWABLE PAR	7	BEP.PR.G	\$1,375	\$5,500	May be reset to GoC 5-year yield + 5.01% on January 31, 2021 or redeemed.
ENBRIDGE INC	N	ENB.PR.N	\$1,000	\$4,000	May be reset to GoC 5-year yield + 2.65% on December 1, 2018 or redeemed.
FAIRFAX FINL HLDGS LTD	K	FFH.PR.K	\$1,168	\$4,671	May be reset to GoC 5-year yield + 3.51% on March 31, 2022 or redeemed.
HUSKY ENERGY INC	5	HSE.PR.E	\$1,125	\$4,500	May be reset to GoC 5-year yield + 3.57% on March 31, 2020 or redeemed.
MANULIFE FINANCIAL CORP	11	MFC.PR.J	\$1,000	\$4,000	May be reset to GoC 5-year yield + 2.61% on March 19, 2018 or redeemed.
ROYAL BANK OF CANADA	BB	RY.PR.H	\$975	\$3,900	May be reset to GoC 5-year yield + 2.26% on August 24, 2019 or redeemed.
TRANSCANADA CORP	11	TRP.PR.G	\$950	\$3,800	May be reset to GoC 5-year yield + 2.96% on November 30, 2020 or redeemed.
Perpetuals					
INTACT FINANCIAL CORP	6	IFC.PR.F	\$994	\$3,975	Next par call is September 30, 2026 at \$25.
POWER FINANCIAL CORP	R	PWF.PR.R	\$1,031	\$4,125	Next par call is April 30, 2021 at \$25.
ROYAL BANK OF CANADA	BJ	RY.PR.P	\$984	\$3,938	Next par call is February 24, 2025 at \$25.
TOTAL			\$11,665	\$46,659	

Cash Flow Analysis



Source: Bloomberg, Raymond James Ltd., Prices as at October 26, 2017.

Most Actively Traded

Trading volume data as at October 26, 2017. 30-Day = Average volume over past 30 days. 5-Day = Average volume over past 5 days

Floating-Rate

Issuer	Series	Symbol	30-Day	5-Day
BANK OF NOVA SCOTIA	21	BNS.PR.B	18,192	1,370
AIMIA INC	2	AIM.PR.B	15,261	1,186
BANK OF MONTREAL	17	BMO.PR.R	14,856	32,225
BCE INC	AE	BCE.PR.E	14,375	62,460
BOMBARDIER INC	B	BBB.PR.B	13,550	8,210
BCE INC	AD	BCE.PR.D	12,850	22,543
BROOKFIELD ASSET MGMT	13	BAM.PR.K	11,515	16,452
THOMSON REUTERS CORP	B	TRI.PR.B	9,872	7,530
TORONTO-DOMINION BANK	T	TD.PR.T	9,745	7,612
BCE INC	Y	BCE.PR.Y	9,264	35,393

Retractable

Issuer	Series	Symbol	30-Day	5-Day
CANOE EIT INCOME FUND	1	EIT.PR.A	6,147	2,384
BIRCHCLIFF ENERGY LTD	C	BIR.PR.C	1,560	1,350
CANADIAN GENL INVESTMENT	4	CGI.PR.D	1,199	1,470
BROOKFIELD INVESTMENTS	A	BRN.PR.A	769	729

Perpetual

Issuer	Series	Symbol	30-Day	5-Day
BOMBARDIER INC	4	BBB.PR.C	27,257	26,255
ROYAL BANK OF CANADA	AC	RY.PR.C	16,927	7,798
POWER FINANCIAL CORP	V	PWF.PR.Z	15,194	11,056
GREAT-WEST LIFECO INC	T	GWO.PR.T	14,319	11,262
ROYAL BK CANADA	AD	RY.PR.D	14,208	4,819
ROYAL BANK OF CANADA	AA	RY.PR.A	13,876	15,800
INTACT FINANCIAL CORP	6	IFC.PR.F	12,954	16,073
ROYAL BK CANADA	AF	RY.PR.F	11,906	3,581
HSBC BANK CANADA	D	HSB.PR.D	10,475	49,752
ROYAL BK CANADA	AE	RY.PR.E	9,547	6,559

Fixed-Reset

Issuer	Series	Symbol	30-Day	5-Day
TORONTO-DOMINION BANK	14	TD.PF.H	69,838	15,139
CANADIAN IMPERIAL BANK	45	CM.PR.R	66,998	74,257
BROOKFIELD ASSET MAN INC	48	BAM.PF.J	54,845	26,469
TRANSCANADA CORP	15	TRP.PR.K	47,598	33,046
ROYAL BANK OF CANADA	BK	RY.PR.Q	41,104	50,206
ROYAL BANK OF CANADA	BM	RY.PR.R	39,146	29,901
BANK OF MONTREAL	40	BMO.PR.C	38,740	29,639
TORONTO-DOMINION BANK	16	TD.PF.I	37,638	53,898
KINDER MORGAN CANADA LTD	1	KML.PR.A	35,537	71,868
ROYAL BANK OF CANADA	AZ	RY.PR.Z	35,147	31,789

New Issues

Brookfield Asset Management, Series 48

- **Symbol:** BAM.PF.J
- **Type:** Fixed-Reset, Cumulative
- **Issue:** \$25.00 | 12.0 million shares | September 13, 2017
- **Rating:** Pfd-2L (DBRS)
- **Dividend:** 4.75% | MJSD-30
- **Notes:** Coupon is 4.75% until November 1, 2021, thereafter resets every 5 years @+3.10% over 5-year GoC bond yield. The minimum coupon is 4.75%.

Capital Power, Series 9

- **Symbol:** CPX.PR.I
- **Type:** Fixed-Reset, Cumulative
- **Issue:** \$25.00 | 6.0 million shares | August 9, 2017
- **Rating:** Pfd-3L (DBRS)
- **Dividend:** 5.75% | MJSD-31
- **Notes:** Coupon is 5.75% until September 30, 2022, thereafter resets every 5 years @+4.12% over 5-year GoC bond yield. The minimum coupon is 5.75%.

Intact Financial, Series 6

- **Symbol:** IFC.PR.F
- **Type:** Perpetual, Non-Cumulative
- **Issue:** \$25.00 | 6.0 million shares | August 18, 2017
- **Rating:** Pfd-2 (DBRS)
- **Dividend:** 5.30% | MJSD-31
- **Notes:** Coupon is 5.30%. Call schedule: Sept 30, 2022 at \$26.00; Sept 30, 2023 at \$25.75; Sept 30, 2024 at \$25.50; Sept 30, 2025 at \$25.25; and Sept 30, 2026 at \$25.00

Kinder Morgan Canada, Series 1

- **Symbol:** KML.PR.A
- **Type:** Fixed-Reset, Non-Cumulative
- **Issue:** \$25.00 | 12.0 million shares | August 15, 2017
- **Rating:** Pfd-3H (DBRS)
- **Dividend:** 5.25% | MJSD-31
- **Notes:** Coupon is 5.25% until November 15, 2022, thereafter resets every 5 years @+3.65% over 5-year GoC bond yield. The minimum coupon is 5.25%.

TD Bank, Series 16

- **Symbol:** TD.PF.I
- **Type:** Fixed-Reset, Non-Cumulative
- **Issue:** \$25.00 | 12.0 million shares | July 14, 2017
- **Rating:** Pfd-2 (DBRS)
- **Dividend:** 4.50% | MJSD-31
- **Notes:** Coupon is 4.50% until November 15, 2022, thereafter resets every 5 years @+3.01% over 5-year GoC bond yield.

Credit Rating Changes

Company Name	Date	Agency	Curr Rtg	Last Rtg
RioCan REIT	10/02/2017	DBRS	WR	Pfd-3H
Veresen Inc	10/02/2017	DBRS	WR	Pfd-3 *-
Kinder Morgan Canada Ltd	08/15/2017	DBRS	Pfd-3H	
Aimia Inc	08/10/2017	DBRS	Pfd-5H	Pfd-3L *-

Source: Bloomberg, WR = Withdrawn Rating, NR = No rating has been requested. October 12, 2017

Appendix A: Yield Tables

Yields tables are included as a separate report/attachment, and are also available on a daily basis from the Fixed Income Group of Raymond James Ltd.

Appendix B: Credit Ratings Comparisons

DBRS	S&P	S&P Global	Description
Pfd-1 (high)	P-1 (high)	AA	Superior: High quality with minimal credit risk. Such a rating is back by strong earnings and balance sheet.
Pfd-1	P-1	AA-	
Pfd-1	P-1	A+	
Pfd-1 (low)	P-1 (low)	A	
Pfd-1 (low)	P-1 (low)	A-	
Pfd-2 (high)	P-2 (high)	BBB+	Satisfactory: Upper-medium grade and comes with moderate credit risk. There is substantial protection of dividend and principal.
Pfd-2	P-2	BBB	
Pfd-2 (low)	P-2 (low)	BBB-	
Investment Grade Cut-Off			
Pfd-3 (high)	P-3 (high)	BB+	Adequate: Medium grade and comes with moderate credit risk. There may be speculative characteristics.
Pfd-3	P-3	BB	
Pfd-3 (low)	P-3 (low)	BB-	
Pfd-4 (high)	P-4 (high)	B+	Speculative: substantial credit risk, and are speculative in nature. The protection of dividend and principal is uncertain, but especially so during times of economic adversity.
Pfd-4	P-4	B	
Pfd-4 (low)	P-4 (low)	B-	
Pfd-5 (high)	P-5 (high)	CCC+	Highly Speculative: Very high credit risk due to chance of default. The protection of dividend and principal is uncertain.
Pfd-5	P-5	CCC	
Pfd-5 (low)	P-5 (low)	CCC-	
Pfd-5 (low)	CC	CC	
Pfd-5 (low)	C	C+	
Pfd-5 (low)	C	C	
Pfd-5 (low)	C	C-	
D	D	D	
In Arrears: The lowest rated class. Low prospect for recovery of principal and interest.			

Appendix C: Education and Glossary

What are Preferred Shares?

Preferred shares are equity securities that provide investors a fixed dividend which must be paid out before common share dividends are paid. Preferred shares have characteristics of both equity and debt instruments. The fixed dividend is stated by a coupon rate and is commonly paid out quarterly. In the event of a dissolution or liquidation of the issuer, preferred shareholders' claims on assets are senior to common shareholders but behind debt holders.

Preferred vs Common

- Like most common shares, these are equity instruments which pay dividends
- Potential for price appreciation but price is less volatile than common shares
- Not able to participate in the upside profits from ownership of the company and usually have no voting rights unlike common shares

Preferreds vs Debt Securities

- React similarly to interest rates as bond instruments
- Many preferred shares are issued at a fixed par value
- Rated by the major credit rating agencies
- Redeemable for a set amount at the end of a fixed term
- Typically pay a fixed dividend

What are the Benefits?

- **Favourable tax treatment:** Better after-tax return for preferred share distributions from Canadian corporations; preferred dividends are less heavily taxed due to the dividend tax credit compared to interest which is fully taxable as income under Canadian federal and provincial legislation.
- **Higher yield than other fixed income products:** Preferreds tend to have higher yields than other fixed income products such as bonds since distributions are less assured. Yields are not guaranteed but many major public companies will meet preferred share obligations even in times of losses. However, some issuers have the right to defer (or suspend) payment of dividends upon financial hardship.
- **Price stability compared to common shares:** Less volatility in price of preferreds.

- **Addresses reinvestment risk:** available in longer terms unlike money market products such as GICs

What are the Drawbacks?

- **Interest Rate Risk:** Many preferreds pay a fixed rate distribution similar to fixed income securities; there is an inverse relationship between changes in interest rates and the price of the preferred shares. Price sensitivity of the preferreds is greater for longer terms and for lower coupon rates. Preferreds are less price sensitive to interest rate fluctuations than bonds.
- **Call Risk:** Callable preferreds tend to have higher yield to maturities given the call risk. However, the call risk is a disadvantage to the investor for the following reasons: future dividend income stream is uncertain, reinvestment risk for the investor since the issuer often exercises the call provision when interest rates have fallen in order to refinance at lower rates. Callable issues are unlikely to appreciate in price when interest rates fall and possibly decline below the call price given a significant rise in rates.
- **Credit Risk:** Independent agencies such as the Dominion Bond Rating Service (DBRS), and Standard & Poor's (S&P), assess an issuer's ability to fulfill its obligations and assign a credit rating. A decline in credit quality can negatively impact the price of preferreds and the dividend policy of the issuer.
- **Liquidity Risk:** Preferreds often have light trading volumes, i.e. "thin" markets. This lack of liquidity can cause exaggerated swings in price when buy or sell volumes pick up from normal levels.

What to Look for in Buying Preferreds?

- **Credit Quality:** Higher quality preferreds provide higher assurance of a dependable income stream. The price of preferred shares is likely to erode much more upon the issuer facing financial difficulty than from a shift in rates. High credit quality preferreds are rated P1 and P2 by DBRS.
- **Yield to Call/Redemption:** This is the yield shown to a call date or reset date.
- **Liquidity:** - Certain issuers are more easily purchased or sold on the market due to higher liquidity. The size of the initial preferred offering can influence liquidity. In general, the larger the issuance size, the better the liquidity.
- **Diversification:** Selecting preferreds in different industries and with different features can help provide balance and flexibility to an investor.

Types of Preferred Shares

Preferreds can be structured in a variety of ways based on a combination of features related to the 1) term or maturity (fixed or no maturity date), 2) payment provision (fixed or floating rate), 3) dividend policy (cumulative or non-cumulative), and 4) other unique qualities. It is easy to see that there can be a number of different combinations of the different features for preferred shares which give the holder/issuer different rights. Therefore, prior to investing in preferred shares, it is important to understand the specific features of the particular preferred share issuance. The following is a description of the different types of preferred shares.

1. Term to Maturity

- Perpetual/straight preferreds have no fixed maturity date, the stated dividend rate is paid in perpetuity. Although the issuer does have redemption rights.
- (Hard) Retractable/term preferreds have a set maturity date at the time of issue, the investor would get back his capital investment at the end of the specified period.
- Soft Retractable preferreds pay out the retraction amount either as cash or an equivalent amount in common shares of the issuer, at the option of the issuer. Typically, the stock price used to calculate the number of common shares is 95% of the average price of the common shares in a time period before the retraction occurs.

2. Payment Provision

- Fixed Rate preferreds have a fixed dividend at issue date, can be a fixed dollar value of a stated percentage of par value, normally paid quarterly
- Floating Rate preferreds offer a floating dividend tied to a benchmark, typically as a percentage of the bank prime rate
- Resettables pay a fixed dividend rate for a specified period, usually for five years after their date of issue. On and after that date and on every fifth anniversary, if the issue is not redeemed by the issuer, the holder has the option to either receive a floating-rate dividend, or exchange the series for a further series of a fixed-rate preferred.

3. Dividend Policy

- Cumulative means any missed dividends are accumulated and paid in full before common dividends are paid or preferred shares are redeemed.
- Non-cumulative means dividends are paid only when declared and to do not accumulate if missed. The trend in the marketplace has been issuances with non-cumulative preferred shares.

4. Other Features

- Convertible preferreds allow the holder to convert the preferreds into common shares based on a specified conversion formula, there are not many of these in the market nowadays.
- Redeemable or Callable features allow the issuer to reserve the right to redeem or “buy back” shares at a predetermined price after a specific date. A small premium above the par value per share is often paid as compensation to the investor when the shares are called. Non-callables, which are rare, cannot be called or redeemed as long as the issuing company is in existence.

There are a couple of other types of preferred shares which have characteristics which are quite different from conventional preferred shares and are described below.

- Deferred Preferred Shares are non-dividend-paying preferred shares, similar to strip bonds, the shares are redeemed at a set par value on a set date in the future. However, unlike strip bonds, the accrued dividends (the dividend premium) on a deferred preferred share are not subject to yearly tax. When the holder is an individual, such dividends do not qualify for the gross-up and dividend tax credit rules normally applicable to dividends received by individuals from taxable Canadian corporations. If the preferred is held to redemption, the accrued dividends are fully taxable as interest income.
- Synthetic Preferreds (Split Shares, Structured, Equity Dividend Shares) are preferreds where holders give up the right to all capital gains to common shareholders while receiving all the dividends on the common shares. The maturity values of such structured shares are dependent upon the value of the underlying common. Another feature of many Split Shares is a possible early redemption date.

Tax Consequences

For tax purposes, there is usually a disposition when preferred shares are redeemed or called. Here is a list of tax related terminology related to such an event.

- **Deemed Dividend:** The difference between the redemption price and the shares' paid up capital
- **Deemed Proceeds of Disposition:** The deemed dividend deducted from the redemption price
- **Adjusted Cost Base (ACB):** This is generally the purchase price plus sales commissions
- **Capital Gain/Loss on the Disposition:** The amount the deemed proceeds of disposition exceeds (or is less than) the adjusted cost base

The table below provides a few illustrative examples of the tax consequences upon redemption of preferred shares.

Tax Consequences

Redemption	Tax Consequence
Redemption Price Equals Paid-up Capital	<ul style="list-style-type: none"> ▪ No deemed dividend ▪ Deemed proceeds of disposition is the paid-up capital
Redemption When Paid-Up Capital Is Less Than Par	<ul style="list-style-type: none"> ▪ Can result in a significant deemed dividend ▪ Deemed proceeds of disposition well below par resulting in the realization of a significant capital loss on the redemption
Purchase price above par value & Redemption at Par	<ul style="list-style-type: none"> ▪ Capital loss, can offset any capital gains realized in calendar year of redemption or carry back 3 yrs or carried forward indefinitely
Redemption Price Above Par	<ul style="list-style-type: none"> ▪ Paid-up capital rarely greater than par, thus, this results in deemed dividend ▪ Deemed proceeds of disposition is the paid-up capital

Please note that the tax implications in the examples are for illustrative purposes only, and should not be considered an interpretation of the Income Tax Act; nor do they purport to constitute specific tax advice. Clients should seek independent advice on tax-related matters from qualified professionals licensed to practice in that area.

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