

Canadian Preferred Shares Report

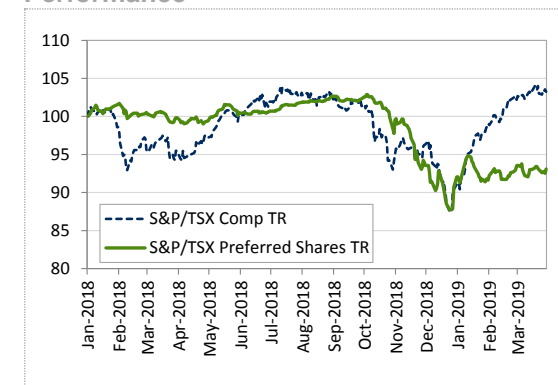
Yield!

Coming off a disappointing end to 2018, Canadian preferred shares managed to return 1.1% in the first quarter of 2019. The Bank of Canada (BoC) and the Fed changed their tunes on future rate hikes during the first three months of the year resulting in volatility in bond markets as yield curves inverted – a strong predictor of a recession. With dovish tones and a continuation of lower yields, equity markets rallied and the S&P/TSX Composite had a first quarter total return of 13.3%, while the Canadian bond market also performed well at 3.9%.

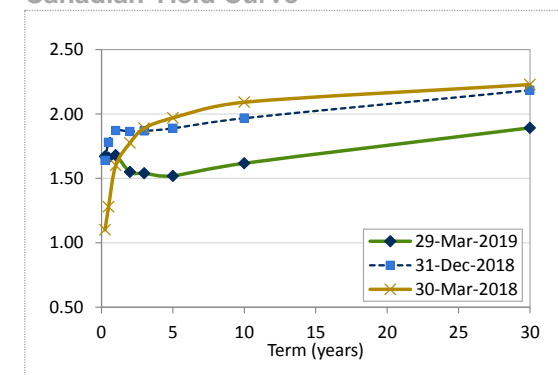
In a recent report, “Field Guide to Recession” by Raymond James economist Scott Brown, he writes that one concern is that we can talk ourselves into a recession. This is not surprising with all the commentary through the press and social media. Recent economic data is showing that global growth is slowing down and not contracting. Many of the negative headlines such as those surrounding US-China trade war and low oil prices are slowly dissipating and we believe that central banks are in a wait and see mode.

We are looking for yields to move sideways to slightly higher in the near term and believe the latest drop in the Government of Canada (GoC) 5-year yield has presented a good opportunity for preferred share investors. We remain constructive on fixed-reset preferred shares in the sweet spot (more to come) of the market, but advise investors to hold some perpetuals and high reset spread fixed-resets to help mitigate the risk of potentially lower yields.

Performance



Canadian Yield Curve



Source: Bloomberg, Raymond James Ltd.

Phil Kwon
Fixed Income

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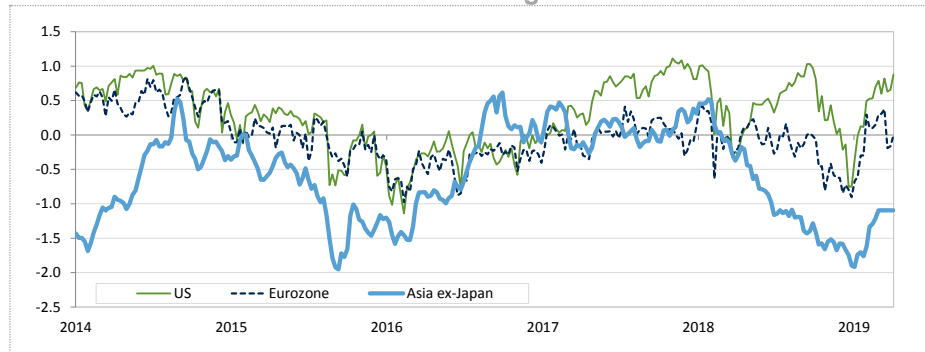
Please read domestic and foreign disclosure/risk information beginning on page 10.

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Central Banks Change Their Tone

Like most economists across the street, we did not foresee the BoC and the Fed changing their tone so quickly on rate hikes. Both central banks went from targeting multiple rate hikes in 2019 to none in the span of several months on concerns that global growth was slowing and needed to be monitored. Currently (at the time of writing), interest rate markets are indicating a chance of a US rate cut by end of the year.

Global Economic Slowdown?: Bloomberg Financial Conditions Index



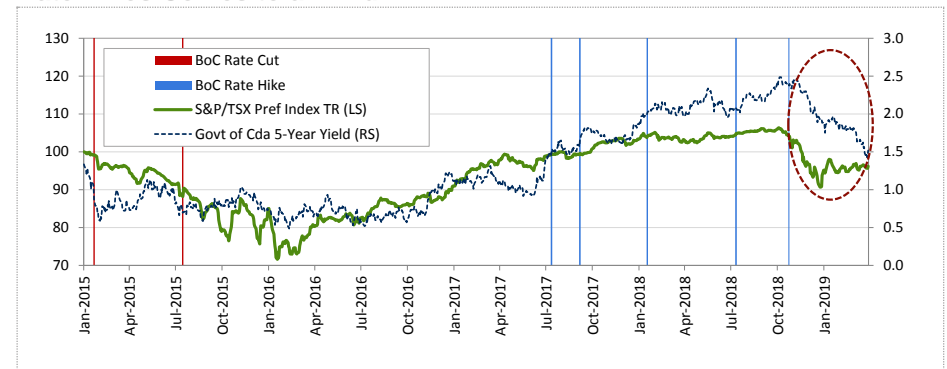
Source: Bloomberg, Raymond James Ltd. The Bloomberg Financial Conditions Index tracks the overall level of financial stress in the currency, bond, and equity markets to help assess the availability and cost of credit. A positive value indicates accommodative financial conditions, while a negative value indicates tighter financial conditions relative to pre-crisis norms.

At the latest rate announcement on March 6, the BoC kept rates unchanged as expected and commentary was dovish due to greater uncertainty about the outlook. From the last statement in January, policy makers dropped their assertion that rates will need to rise over time. The change in tone is reinforcing expectations that Governor Poloz expects he will be on hold for a while. Shortly after on March 20, the Fed also left rates unchanged and forecasted no rate hikes for the remainder of the year. This is drastically different from the forecast three months ago, when the Fed was projecting that they would hike twice this year and eventually lift policy into restrictive territory as inflation hovered just above 2%.

In response to the change in commentary by both central banks, we saw yield curves flatten and even invert in both Canada and the US. The slope of the yield curve has arguably been considered one of the best predictors of a recession. An

inverted yield curve implies an expectation that short-term rates will decline because the economy will fall into recession and the central bank will respond by lowering short-term interest rates.

Rate Hikes Comes to an End



Source: Bloomberg, Raymond James Ltd.

As rate hike rhetoric changed, the GoC 5-year yield saw a drop of ~100 bps from nearly 2.5% since the last rate hike by the BoC in Oct 2018. With the all-important benchmark yield for fixed-resets plunging, the pref market is down ~10% since Oct 1. Preferred share investors are reminded of 2015 when the BoC cut rates twice and falling yields caused prefs to fall by nearly 20% in the year. So where do we go from here?

The Sweet Spot

Currently, we see yields going sideways to slightly higher over the near term. Due to recent sell-off, we believe that there is value in the pref market, but investors need to be selective. Looking at all fixed-reset preferreds can be a daunting task, but like when building a bond portfolio, a target duration/reset date can be chosen.

In the following table, we looked at all fixed-resets and calculated their new dividend using a GoC 5-year yield of 1.50%. Looking at the results, there is definitely a sweet spot when looking at reset dates 1.5-2.5 years out. In this range, we see all issues increasing their dividend, even at a GoC 5-year yield of 1.50%, for an average annual dividend increase of \$0.17-0.19. This equates to a par yield increase of 0.68-0.76%.

Fixed-Reset Dividend Changes at GoC 5-Year Yield = 1.50%

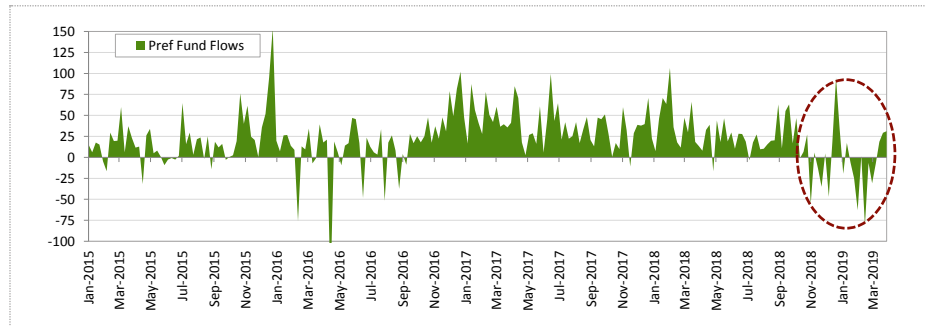
Reset Date (# Yrs Out)	# Issues	Avg Div Change	Increasing Dividends	
			# Issues	% of Issues
<1.0 yrs	39	(\$0.03)	5	12.8%
1.0 – 1.5	21	\$0.12	17	81.0%
1.5 – 2.0	22	\$0.17	22	100.0%
2.0 – 2.5	26	\$0.19	26	100.0%
2.5 – 3.0	18	\$0.14	17	94.4%
3.0 – 3.5	24	\$0.08	23	95.8%
3.5 – 4.0	20	(\$0.04)	2	10.0%
4.0 – 4.5	15	(\$0.16)	0	0.0%
4.5 – 5.0	21	(\$0.17)	0	0.0%
5.0+	11	(\$0.08)	0	0.0%
All Fixed-Resets	217	\$0.03	112	51.6%

Source: Bloomberg, Raymond James Ltd. As at April 10, 2019. Fixed-reset without an absolute reset spread to the GoC 5-yr yield were not included in this analysis (some BCE prefs).

Conclusion: Portfolio Positioning

Since we are in the camp that yields will be flat to slightly higher over the near term, we currently remain constructive on preferred shares. We continue to be overweight fixed-resets as we see good value in this area of the market. We do remain cognisant that preferred shares can be volatile, especially with the proliferation of pref ETFs, and flows can exaggerate market movements creating opportunities for investors.

Preferred Share ETF Flows



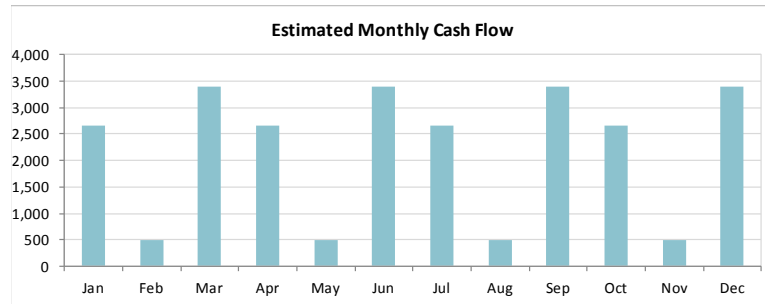
Source: Bloomberg, Raymond James Ltd.

Highlights: Sample Portfolio

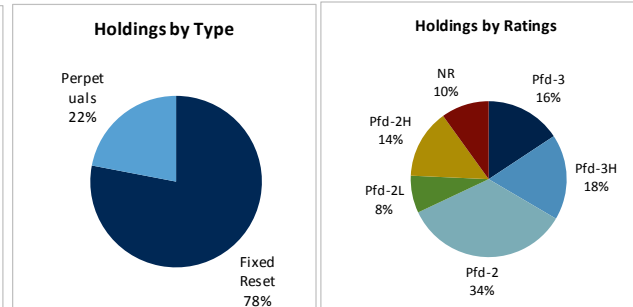
Issuer	General Information		Rating	Par	Price		Dividend		Possible Calls			Shares	Value	Weight
	Series	Symbol			DBRS	12-Apr-2019	Current Yield	Annual	MMMM-DD	Date	Price			
Fixed Reset														
BROOKFIELD OFFICE PROP	R	BPO.PR.R	Pfd-3	\$25.00	\$17.40	5.97%	\$1.04	MJSD-31	30-Sep-2021	\$25.00	19.98	2,000	\$34,800	78.0%
BROOKFIELD INFRASTRUCTUR	5	BIP.PR.C	NR	\$25.00	\$24.70	5.41%	\$1.34	MJSD-31	30-Sep-2021	\$25.00	5.97	2,000	\$49,400	9.9%
BROOKFIELD RENEWABLE PAR	7	BEP.PR.G	Pfd-3H	\$25.00	\$24.50	5.61%	\$1.38	JAO-31	31-Jan-2021	\$25.00	6.46	2,000	\$49,000	9.9%
CANADIAN IMPERIAL BANK	45	CM.PR.R	Pfd-2	\$25.00	\$22.76	4.83%	\$1.10	JAO-31	31-Jul-2022	\$25.00	7.65	2,000	\$45,520	9.2%
FAIRFAX FINL HLDGS LTD	K	FFH.PR.K	Pfd-3H	\$25.00	\$19.60	5.96%	\$1.17	MJSD-31	31-Mar-2022	\$25.00	13.78	2,000	\$39,200	7.9%
MANULIFE FINANCIAL CORP	1-7	MFC.PR.H	Pfd-2	\$25.00	\$22.26	4.84%	\$1.08	MJSD-19	19-Mar-2022	\$25.00	8.53	2,000	\$44,520	9.0%
PEMBINA PIPELINE CORP	9	PPL.PR.I	Pfd-3	\$25.00	\$21.64	5.49%	\$1.19	MJSD-1	01-Dec-2020	\$25.00	14.37	2,000	\$43,280	8.7%
TORONTO-DOMINION BANK	9	TD.PF.E	Pfd-2	\$25.00	\$21.83	4.24%	\$0.93	JAO-31	31-Oct-2020	\$25.00	12.65	2,000	\$43,660	8.8%
TRANSCANADA CORP	11	TRP.PR.G	Pfd-2L	\$25.00	\$19.20	4.95%	\$0.95	JAO-30	30-Nov-2020	\$25.00	20.91	2,000	\$38,400	7.7%
Perpetuals														
GREAT-WEST LIFECO INC	T	GWO.PR.T	Pfd-2H	\$25.00	\$23.98	5.37%	\$1.29	MJSD-31	30-Jun-2022	\$26.00	7.59	1,500	\$35,970	7.2%
POWER FINANCIAL CORP	V	PWF.PR.Z	Pfd-2H	\$25.00	\$23.57	5.46%	\$1.29	JAO-31	31-Jul-2022	\$26.00	7.92	1,500	\$35,355	7.1%
ROYAL BANK OF CANADA	BJ	RY.PR.P	Pfd-2	\$25.00	\$25.33	5.18%	\$1.31	FMAN-24	24-Feb-2021	\$26.00	6.64	1,500	\$37,995	7.6%
TOTAL														
											5.26%		\$497,100	

Issuer	General Information		Quarterly Income	Annual Income	Notes
	Series	Symbol			
Fixed Reset					
BROOKFIELD OFFICE PROP	R	BPO.PR.R	\$519	\$2,078	5yr GoC +3.48%
BROOKFIELD INFRASTRUCTUR	5	BIP.PR.C	\$669	\$2,675	5yr GoC +4.64% (Min 5.35%)
BROOKFIELD RENEWABLE PAR	7	BEP.PR.G	\$688	\$2,750	5yr GoC +5.01% (Min 5.75%)
CANADIAN IMPERIAL BANK	45	CM.PR.R	\$550	\$2,200	5yr GoC +3.38%
FAIRFAX FINL HLDGS LTD	K	FFH.PR.K	\$584	\$2,336	5yr GoC +3.51%
MANULIFE FINANCIAL CORP	1-7	MFC.PR.H	\$539	\$2,156	5yr GoC +3.13%
PEMBINA PIPELINE CORP	9	PPL.PR.I	\$594	\$2,375	5yr GoC +3.91%
TORONTO-DOMINION BANK	9	TD.PF.E	\$463	\$1,850	5yr GoC +2.87%
TRANSCANADA CORP	11	TRP.PR.G	\$475	\$1,900	5yr GoC +2.96%
Perpetuals					
GREAT-WEST LIFECO INC	T	GWO.PR.T	\$483	\$1,931	
POWER FINANCIAL CORP	V	PWF.PR.Z	\$483	\$1,931	
ROYAL BANK OF CANADA	BJ	RY.PR.P	\$492	\$1,969	
TOTAL					
			\$6,538	\$26,150	

Source: Bloomberg, Raymond James Ltd.



Source: Bloomberg, Raymond James Ltd., Prices as at April 12, 2019.



Most Actively Traded

Trading volume data as at April 15, 2019. 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
BCE INC	AD	BCE.PR.D	21,518	17,480
BCE INC	Y	BCE.PR.Y	21,034	26,318
BCE INC	AB	BCE.PR.B	16,648	4,742
BCE INC	AJ	BCE.PR.J	9,235	3,088
TRANSCANADA CORP	2	TRP.PR.F	8,544	5,187
BANK OF NOVA SCOTIA	31	BNS.PR.D	7,581	3,460
SUN LIFE FINANCIAL INC	9QR	SLF.PR.J	7,299	3,896
BCE INC	AH	BCE.PR.H	6,604	4,651
AIMIA INC	2	AIM.PR.B	5,075	2,796
BCE INC	AE	BCE.PR.E	4,707	3,756

Retractable

Issuer	Series	Symbol	30-Day	5-Day
CANOE EIT INCOME FUND	2	EIT.PR.B	6,329	11,749
CANADIAN GENL INVESTMENT	4	CGI.PR.D	3,393	2,100
CANOE EIT INCOME FUND	1	EIT.PR.A	3,061	5,253
BIRCHCLIFF ENERGY LTD	C	BIR.PR.C	887	900
BROOKFIELD INVESTMENTS	A	BRN.PR.A	524	963

Perpetual

Issuer	Series	Symbol	30-Day	5-Day
SUN LIFE FINANCIAL INC	1	SLF.PR.A	37,555	2,808
IGM FINANCIAL INC	B	IGM.PR.B	30,893	139,790
SUN LIFE FINANCIAL INC	4	SLF.PR.D	21,221	4,274
GREAT-WEST LIFECO INC	I	GWO.PR.I	18,431	5,410
FORTIS INC	J	FTS.PR.J	17,730	5,427
GREAT-WEST LIFECO INC	S	GWO.PR.S	15,022	42,118
POWER FINANCIAL CORP	S	PWF.PR.S	14,969	6,419
GEORGE WESTON LTD	V	WN.PR.E	11,352	6,211
MANULIFE FINANCIAL	2	MFC.PR.B	11,265	7,078
GREAT-WEST LIFECO INC	P	GWO.PR.P	11,066	3,367

Fixed-Reset

Issuer	Series	Symbol	30-Day	5-Day
BCE INC	R	BCE.PR.R	49,522	6,448
BCE INC	AC	BCE.PR.C	47,586	177,187
TRANSCANADA CORP	15	TRP.PR.K	46,534	55,764
ROYAL BANK OF CANADA	BB	RY.PR.H	38,691	22,682
VALENER INC	A	VNR.PR.A	31,140	89,713
CANADIAN IMPERIAL BANK	45	CM.PR.R	31,093	14,166
ENBRIDGE INC	P	ENB.PR.P	27,557	19,758
TRANSCANADA CORP	7	TRP.PR.D	26,766	18,038
TRANSCANADA CORP	13	TRP.PR.J	26,211	5,927
ENBRIDGE INC	F	ENB.PR.F	25,217	30,803

New Issues in Q1-2019

BIP Investment, Series 1

- **Symbol:** BIK.PR.A
- **Type:** Fixed-Reset, Cumulative
- **Issue:** \$25.00 | 4.0 million shares | February 5, 2019
- **Rating:** NR (DBRS)
- **Dividend:** 5.85% | MJSD-31
- **Notes:** Coupon is 5.85% until March 31, 2024, thereafter resets every 5 years @+3.96% over 5-year GoC bond yield. Minimum yield of 5.85%.

Brookfield Renewable, Series 15

- **Symbol:** BEP.PR.O
- **Type:** Fixed-Reset, Cumulative
- **Issue:** \$25.00 | 7.0 million shares | March 11, 2019
- **Rating:** Pfd-3H (DBRS)
- **Dividend:** 5.75% | JAJ0-31
- **Notes:** Coupon is 5.75% until April 30, 2024, thereafter resets every 5 years @+3.94% over 5-year GoC bond yield. Minimum yield of 5.75%.

CIBC, Series 49

- **Symbol:** CM.PR.T
- **Type:** Fixed-Reset, Non-Cumulative
- **Issue:** \$25.00 | 13.0 million shares | January 22, 2019
- **Rating:** Pfd-2 (DBRS)
- **Dividend:** 5.20% | JAJ0-31
- **Notes:** Coupon is 5.20% until April 30, 2024, thereafter resets every 5 years @+3.31% over 5-year GoC bond yield.

Canadian Western Bank, Series 9

- **Symbol:** CWB.PR.D
- **Type:** Fixed-Reset, Non-Cumulative
- **Issue:** \$25.00 | 5.0 million shares | January 29, 2019
- **Rating:** Pfd-3 (DBRS)
- **Dividend:** 6.00% | JAJ0-31
- **Notes:** Coupon is 6.00% until April 30, 2024, thereafter resets every 5 years @+4.04% over 5-year GoC bond yield.

Toronto Dominion Bank, Series 22

- **Symbol:** TD.PF.L
- **Type:** Fixed-Reset, Non-Cumulative
- **Issue:** \$25.00 | 14.0 million shares | January 28, 2019
- **Rating:** Pfd-2 (DBRS)
- **Dividend:** 5.20% | JAJ0-31
- **Notes:** Coupon is 5.20% until April 30, 2024, thereafter resets every 5 years @+3.27% over 5-year GoC bond yield.

Credit Rating Changes

Company Name	Date	Agency	Curr Rtg	Last Rtg
Kinder Morgan Canada Ltd	03/11/2019	DBRS	Pfd-3	Pfd-3H *-
Algonquin Power & Utilities Corp	01/25/2019	DBRS	Pfd-3	Pfd-3L
Brompton Oil Split Corp	01/23/2019	DBRS	Pfd-4L	Pfd-3

Source: Bloomberg, WR = Withdrawn Rating, NR = No rating has been requested. March 31, 2019.

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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