

Canadian Preferred Shares Report

October 24, 2019

Fixed Income Group

Doves Fly South for the Winter

Typical summer doldrums were non-existent in the third quarter this year as both equity and bond markets around the world saw spikes in volatility. Escalating US-China trade war tensions and no-deal Brexit worries have contributed to concerns of slowing global economic growth. With concerns on the rise, central banks, including the Fed, cut rates and global yields plummeted. In the month of August, the US 30-year Treasury yield hit a record low and the US yield curve inverted causing US recession worries to reverberate globally.

Despite all the geopolitical tension, Canada has been able to weather the storm with a housing rebound, good economic growth and one of the strongest job markets in recent times. At the latest Bank of Canada (BoC) rate meeting, the rates were left pat as expected due to stronger-than-expected growth and inflation being on target. Also, the BoC did not follow its global counterparts in signalling future cuts to their key interest rate. With the probability of a near-term rate cut in Canada on the decline, the prospect of preferred shares has improved due to its positive correlation to yields.

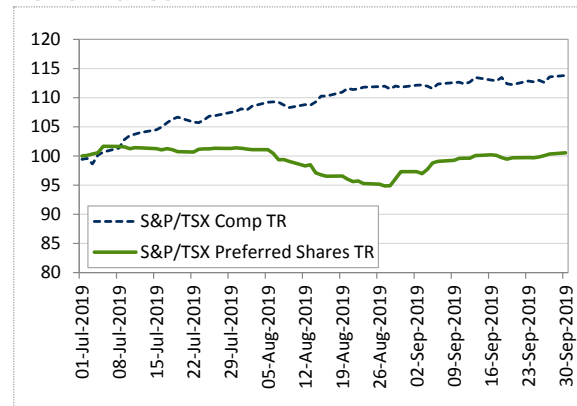
We remain overweight fixed-resets as we see good value in this area of the market. We do remain cognisant that preferred shares can be volatile, especially with the proliferation of pref ETFs, and flows can exaggerate market movements creating opportunities for investors. We also advise investors to hold some perpetuals and high reset spread fixed-resets to help mitigate the risk of potentially lower yields.

Phil Kwon
Fixed Income

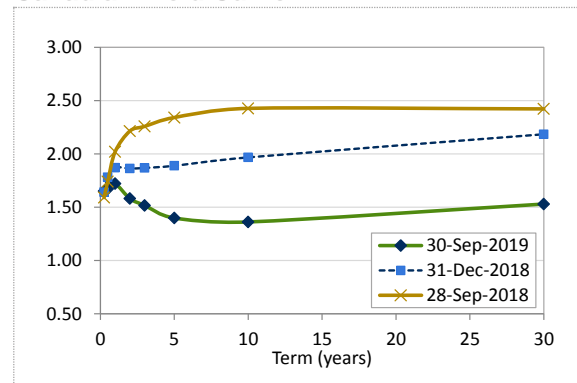
Inside this Report

- Doves Fly South for the Winter.....2
- Prefs Go Where Yields Go2
- Where to Look for Opportunities.....2
- Portfolio Positioning.....3
- Highlights: Sample Portfolio4
- Most Actively Traded.....5
- New Issues in Q3-20196
- Appendix A: Yield Tables7
- Appendix B: Credit Ratings Comparisons7
- Appendix C: Education and Glossary8
- Disclaimer** 10

Performance



Canadian Yield Curve



Source: Bloomberg, Raymond James Ltd.

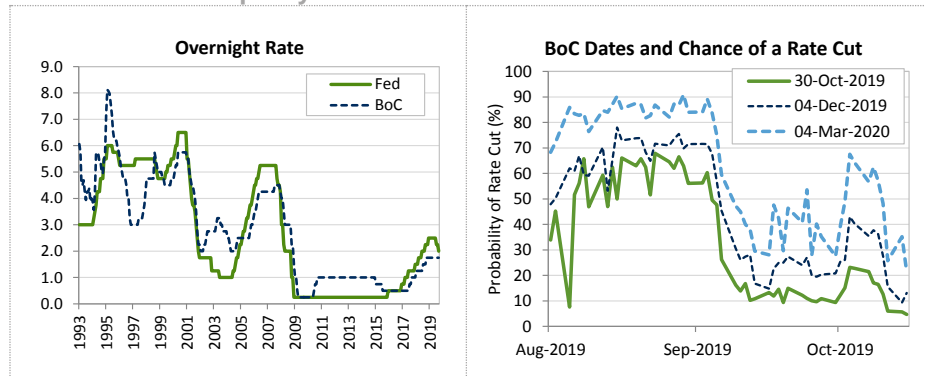
Please read domestic and foreign disclosure/risk information beginning on page 10.

Raymond James Ltd. 5300-40 King St W. | Toronto ON Canada M5H 3Y2. 2200-925 West Georgia Street | Vancouver BC Canada V6C 3L2.

Doves Fly South for the Winter

Over the past 12 months, yields have been declining over a concern of a global economic slowdown. The main cause has been the exasperation of the US-China trade war that has now been going on for 15 months. Brexit has been a secondary source of tension in Europe. On October 15th, the International Monetary Fund (IMF) made a fifth-straight cut to its 2019 global growth forecast, citing a broad deceleration across the world’s largest economies as trade tensions undermine the expansion. The global slowdown has caused many central banks to cut interest rates in order to encourage growth.

BoC Looks to Keep Key Rates As Is



Source: Bloomberg, Raymond James Ltd.

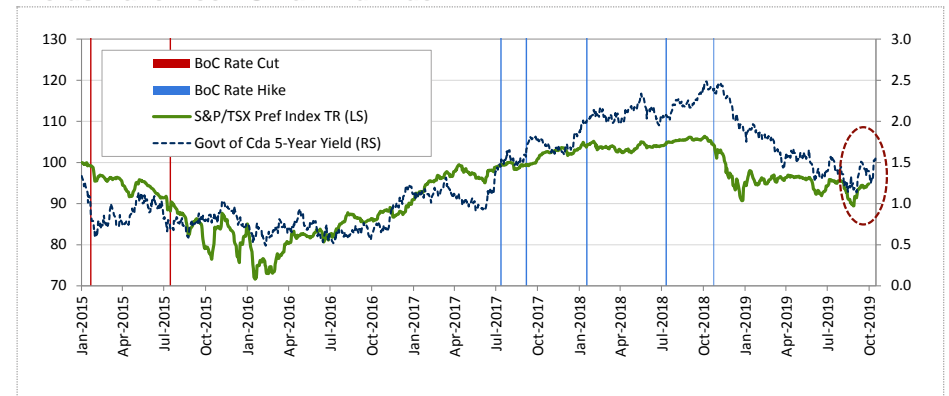
The Fed, after 9 rate hikes from Dec 2015 to Dec 2018, has now cut rates in the past two rate announcements. The Bank of Canada, on the other hand, only had 5 rate hikes from July 2017 to Oct 2018 and has yet to cut rates. As seen in the second chart above, the probability of a rate cut in the next three BoC rate meetings has dropped significantly over the past two months. At the end of October, both the Fed and BoC will have rate announcements. Currently, interest rate markets are forecasting an 89% chance of rate cut for the Fed and a 1.4% probability for the BoC. At the last rate announcement on Sept 4, the BoC left rates unchanged as expected due to stronger-than-expected growth and on-target inflation meaning current levels of stimulus are where they should be. More importantly, the BoC did not follow its global counterparts in signalling an easing of monetary policy.

Prefs Go Where Yields Go

Fixed-resets constitute over two thirds of the preferred shares market in Canada. Thus the pref market is highly correlated to yields, in particular the GoC 5-year yield to which fixed-reset dividends are benchmarked off of. We believe that the GoC 5-year yield will trend higher for the remainder of the year and therefore we continue to be constructive on fixed-resets. In Canada, the probability of a rate cut now has significantly diminished and if there continues to be progress between the US and China, additional rate cuts in the US could be taken off the table.

Since the end of August, we have seen improvement in yields globally with sentiment on the US-China trade war improving, albeit very slowly. With tensions easing, yields have been on the rise and quite substantially. The GoC 5-year yield which was near 1.2%, is currently above 1.5%. During this period, preferred shares were up nearly 5%.

Yields Have Been On a Wild Ride



Source: Bloomberg, Raymond James Ltd.

Where to Look for Opportunities

As we mentioned previously, there is a “sweet spot” in fixed-reset preferred shares, represented by the shaded area of the following table. These fixed-resets were either issued or their dividends were reset when the GoC 5-year was at record lows in 2015-2016. We believe there is an excellent opportunity to purchase some of these preferred shares which are looking to have their dividends reset higher at the

next reset date with an assumed GoC 5-year yield of 1.50%. Do delve a little deeper in each 6 month bracket, looking at credit quality, reset spreads and company sector, and select a fixed-reset appropriate for your risk profile.

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	42	\$0.06	25	60%
1.0 – 1.5	25	\$0.14	24	96%
1.5 – 2.0	30	\$0.18	28	93%
2.0 – 2.5	21	\$0.07	19	90%
2.5 – 3.0	23	\$0.02	15	65%
3.0 – 4.0	34	-\$0.14	2	6%
4.0 – 5.0	53	-\$0.06	13	25%
5.0+	3	\$0.30	1	33%
All Fixed-Resets	231	\$0.03	127	55%

Source: Bloomberg, Raymond James Ltd. As at October 21, 2019. Fixed-reset without an absolute reset spread to the GoC 5-yr yield were not included in this analysis (some BCE prefs).

Portfolio Positioning

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. For fixed-resets, look to those that are in the “sweet spot” and combine these with ones with a high reset spread or those with minimum yields. High dividend perpetuals should also be included to help mitigate the risk of potentially lower yields.

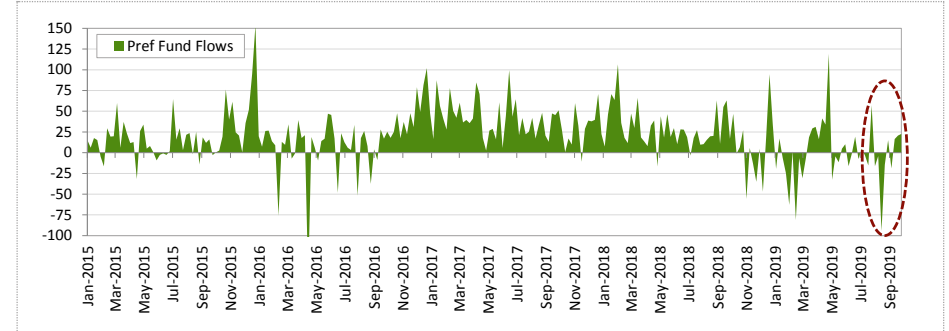
Potential Risks

Geopolitical Tensions Continue: The US-China trade war is now moving on to its 15th month. This conflict has been one of the top influences to market sentiment. Secondly, a Brexit deal deadline of Oct 31 is fast approaching and with no concrete plan nailed down, an ongoing delay will contribute to uncertainty in the market and negative market sentiment.

Tax Loss Selling: Fixed-resets, especially those with lower reset spreads, have not recovered well in the latest rise in yields. These preferreds have the potential to be under more pressure with the upcoming tax loss selling season. Also, due to the number of preferred shares ETFs now available, tax-loss selling in pref ETFs could

potentially lead to an unexpected sell-off in fixed-reset preferred shares with reasonable reset spreads as they get caught in the crossfire.

Preferred Share ETF Flows



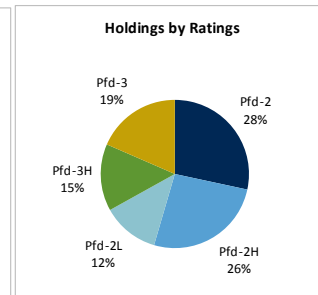
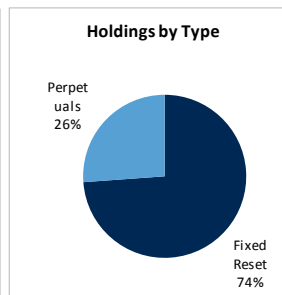
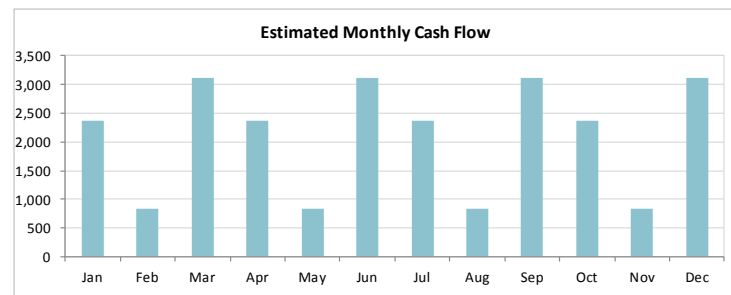
Source: Bloomberg, Raymond James Ltd.

Highlights: Sample Portfolio

General Information			Rating	Price			Dividend		Possible Calls			Shares	Value	Weight
Issuer	Series	Symbol	DBRS	Par	23-Oct-2019	Current Yield	Annual	MMMM-DD	Date	Price	YTC			
Fixed Reset														
BANK OF MONTREAL	40	BMO.PR.C	Pfd-2	\$25.00	\$22.49	5.00%	\$1.13	FMAN-25	25-May-2022	\$25.00	9.10	1,500	\$33,735	7.2%
BCE INC	AO	BCE.PR.O	Pfd-3	\$25.00	\$18.54	5.74%	\$1.07	MJSD-31	31-Mar-2022	\$25.00	17.21	1,501	\$27,829	5.9%
BROOKFIELD OFFICE PROP	R	BPO.PR.R	Pfd-3	\$25.00	\$17.30	6.00%	\$1.04	MJSD-31	30-Sep-2021	\$25.00	24.24	1,502	\$25,985	5.5%
BROOKFIELD RENEWABLE PAR	7	BEP.PR.G	Pfd-3H	\$25.00	\$25.20	5.46%	\$1.38	JAIO-31	31-Jan-2021	\$25.00	4.41	1,503	\$37,876	8.0%
CANADIAN IMPERIAL BANK	45	CM.PR.R	Pfd-2	\$25.00	\$21.29	5.17%	\$1.10	JAIO-31	31-Jul-2022	\$25.00	10.01	1,504	\$32,020	6.8%
FAIRFAX FINL HLDGS LTD	M	FFH.PR.M	Pfd-3H	\$25.00	\$20.60	5.76%	\$1.19	MJSD-31	31-Mar-2020	\$25.00	53.55	1,505	\$31,003	6.6%
MANULIFE FINANCIAL CORP	1-7	MFC.PR.H	Pfd-2	\$25.00	\$20.68	5.21%	\$1.08	MJSD-19	19-Mar-2022	\$25.00	12.87	1,506	\$31,144	6.6%
MANULIFE FINANCIAL CORP	23	MFC.PR.R	Pfd-2	\$25.00	\$24.51	4.95%	\$1.21	MJSD-19	19-Mar-2022	\$25.00	5.97	1,507	\$36,937	7.8%
NATIONAL BANK OF CANADA	38	NA.PR.C	Pfd-2L	\$25.00	\$21.34	5.21%	\$1.11	FMAN-15	15-Nov-2022	\$25.00	9.95	1,508	\$32,181	6.8%
PEMBINA PIPELINE CORP	19	PPL.PR.S	Pfd-3	\$25.00	\$22.08	5.66%	\$1.25	MJSD-31	30-Jun-2020	\$25.00	24.78	1,509	\$33,319	7.1%
TC ENERGY CORP	11	TRP.PR.G	Pfd-2L	\$25.00	\$17.45	5.44%	\$0.95	JAIO-30	30-Nov-2020	\$25.00	39.54	1,510	\$26,350	5.6%
Perpetuals														
GREAT-WEST LIFECO INC	T	GWO.PR.T	Pfd-2H	\$25.00	\$24.16	5.33%	\$1.29	MJSD-31	30-Jun-2022	\$26.00	7.94	1,700	\$41,072	8.7%
POWER FINANCIAL CORP	V	PWF.PR.Z	Pfd-2H	\$25.00	\$23.86	5.40%	\$1.29	JAIO-31	31-Jul-2022	\$26.00	8.31	1,701	\$40,586	8.6%
TORONTO-DOMINION BANK	11	TD.PF.F	Pfd-2H	\$25.00	\$24.50	5.00%	\$1.23	JAIO-31	31-Oct-2020	\$26.00	10.11	1,702	\$41,699	8.8%
TOTAL														
											5.36%		\$471,733	

General Information			Quarterly	Annual	Notes
Issuer	Series	Symbol	Income	Income	
Fixed Reset					
BANK OF MONTREAL	40	BMO.PR.C	\$422	\$1,688	5yr GoC +3.33%
BCE INC	AO	BCE.PR.O	\$400	\$1,599	5yr GoC +3.09%
BROOKFIELD OFFICE PROP	R	BPO.PR.R	\$390	\$1,560	5yr GoC +3.48%
BROOKFIELD RENEWABLE PAR	7	BEP.PR.G	\$517	\$2,067	5yr GoC +5.01% (Min 5.75%)
CANADIAN IMPERIAL BANK	45	CM.PR.R	\$414	\$1,654	5yr GoC +3.38%
FAIRFAX FINL HLDGS LTD	M	FFH.PR.M	\$447	\$1,787	5yr GoC +3.98%
MANULIFE FINANCIAL CORP	1-7	MFC.PR.H	\$406	\$1,623	5yr GoC +3.13%
MANULIFE FINANCIAL CORP	23	MFC.PR.R	\$457	\$1,827	5yr GoC +3.83%
NATIONAL BANK OF CANADA	38	NA.PR.C	\$419	\$1,678	5yr GoC +3.43%
PEMBINA PIPELINE CORP	19	PPL.PR.S	\$472	\$1,886	5yr GoC +4.27% (Was VSN.PR.E)
TC ENERGY CORP	11	TRP.PR.G	\$359	\$1,435	5yr GoC +2.96%
Perpetuals					
GREAT-WEST LIFECO INC	T	GWO.PR.T	\$547	\$2,189	
POWER FINANCIAL CORP	V	PWF.PR.Z	\$548	\$2,190	
TORONTO-DOMINION BANK	11	TD.PF.F	\$521	\$2,085	
TOTAL			\$6,317	\$25,267	

Source: Bloomberg, Raymond James Ltd.



Source: Bloomberg, Raymond James Ltd., Prices as at October 23, 2019.

Most Actively Traded

Trading volume data as at October 22, 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	AJ	BCE.PR.J	34,153	50,797
BCE INC	AH	BCE.PR.H	14,547	28,264
BCE INC	S	BCE.PR.S	8,682	4,405
THOMSON REUTERS CORP	B	TRI.PR.B	8,382	4,322
TC ENERGY CORP	2	TRP.PR.F	8,309	17,717
BCE INC	AE	BCE.PR.E	8,205	1,500
BROOKFIELD ASSET MAN INC	2	BAM.PR.B	7,483	9,237
BCE INC	AL	BCE.PR.L	7,473	1,938
BCE INC	Y	BCE.PR.Y	7,065	4,767
BCE INC	AD	BCE.PR.D	6,114	3,709

Retractable

Issuer	Series	Symbol	30-Day	5-Day
CANOE EIT INCOME FUND	2	EIT.PR.B	4,568	320
CANADIAN GENL INVESTMENT	4	CGI.PR.D	2,591	502
CANOE EIT INCOME FUND	1	EIT.PR.A	1,598	790
BIRCHCLIFF ENERGY LTD	C	BIR.PR.C	1,092	477
BROOKFIELD INVESTMENTS	A	BRN.PR.A	560	450

Perpetual

Issuer	Series	Symbol	30-Day	5-Day
FORTIS INC	J	FTS.PR.J	27,516	6,126
POWER CORPORATION CANADA	D	POW.PR.D	20,808	38,363
SUN LIFE FINANCIAL INC	2	SLF.PR.B	16,966	5,510
SUN LIFE FINANCIAL INC	1	SLF.PR.A	14,468	43,800
SUN LIFE FINANCIAL INC	5	SLF.PR.E	14,318	53,385
BROOKFIELD RENEW POW PFD	6	BRF.PR.F	13,242	36,513
SUN LIFE FINANCIAL INC	4	SLF.PR.D	10,831	11,881
BROOKFIELD ASSET MAN INC	37	BAM.PF.D	8,563	2,555
BROOKFIELD ASSET MAN INC	36	BAM.PF.C	8,448	5,404
POWER FINANCIAL CORP	L	PWF.PR.L	7,153	2,980

Fixed-Reset

Issuer	Series	Symbol	30-Day	5-Day
CANADIAN UTILITIES LTD	Y	CU.PR.C	33,863	15,923
ENBRIDGE INC	N	ENB.PR.N	33,721	43,930
KINDER MORGAN CANADA LTD	3	KML.PR.C	33,054	15,448
POWER FINANCIAL CORP	P	PWF.PR.P	31,911	10,372
TC ENERGY CORP	15	TRP.PR.K	31,683	16,043
BCE INC	AK	BCE.PR.K	30,859	14,407
TC ENERGY CORP	3	TRP.PR.B	30,583	3,576
TORONTO-DOMINION BANK	24	TD.PF.M	28,002	19,169
CANADIAN IMPERIAL BANK	47	CM.PR.S	26,348	17,446
FORTIS INC	M	FTS.PR.M	26,130	22,033

New Issues in Q3-2019

- None this quarter

Credit Rating Changes

Company Name	Date	Agency	Curr Rtg	Last Rtg
Faircourt Split Trust	07/04/2019	DBRS	WR	Pfd-3L
Kinder Morgan Canada Ltd	08/22/2019	DBRS	Pfd-3 *	Pfd-3
Soundvest Split Trust	09/12/2019	DBRS	WR	Pfd-5
Sun Life Financial Inc	10/16/2019	DBRS	Pfd-2H	Pfd-2 *+
Sun Life Financial Inc	07/22/2019	DBRS	Pfd-2 *+	Pfd-2
Valener Inc	09/27/2019	DBRS	NR	Pfd-2L

Source: Bloomberg, WR = Withdrawn Rating, NR = No rating has been requested. October 21, 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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