Canadian Preferred Shares Report

PRIVATE CLIENT SOLUTIONS

October 28, 2020

Fixed Income Group

Inside this Report

Yield!

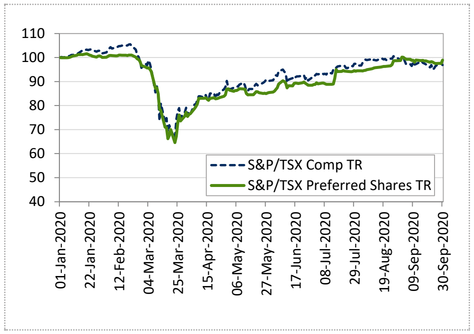
Canadian preferred share prices continued to rally through the summer and posted a third quarter total return of 11.4%, compared to the S&P/TSX at 4.7% and FTSE Canada Bond Universe at 0.4% over the same period. This momentum continued despite yields remaining near record lows and little action from the Bank of Canada (BoC) through the quarter. We believe the positive performance was helped by several factors, specifically, the emergence of the Limited Recourse Capital Note (LRCN) and the search for yield.

As the world struggles with a second wave of the coronavirus, we expect the remainder of the year to be volatile as economies will likely be under pressure again as lock down measures take effect. Central banks may be required to inject more stimulus and lately, the markets have been driven by the hopes of a second US relief package, which could again be in the trillions. The pandemic equity rally which saw US stock markets hit record highs in August looks now to be on hold ahead of the historic US election on November 3. Throughout this and for the remainder of the year, we predict a sideways to a slightly upward trending preferred shares market, with returns driven mostly from dividends and not capital gains. Investors may see some added volatility at the end of the year with tax loss selling of prefs that did not rebound and participate in the latest rally, particularly fixed-resets with low spreads.

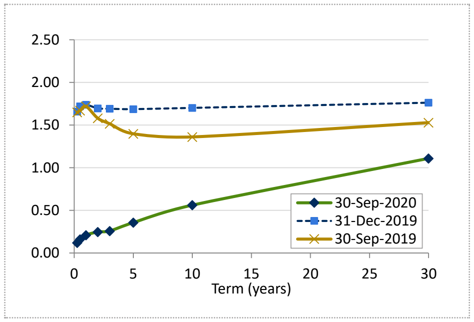
We remain market weight in fixed-resets as we see still good value at a time when yield is hard to come by. In particular, since we maintain a conservative stance, we like resets with high reset spreads and yield minimums that are trading at a discount. We are cognisant that preferred shares can be volatile, especially when pref ETF flows can exaggerate market movements. However, this can also create opportunities for investors. We also advise investors to hold perpetuals with attractive dividends to help mitigate the risk of potentially lower yields.

Phil Kwon
Fixed Income

Performance



Canadian Yield Curve



Source: FactSet, Raymond James Ltd.

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

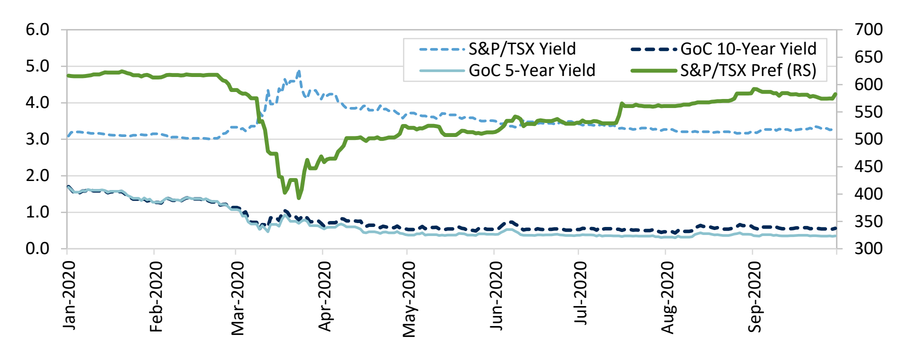
RAYMOND JAMES

Demand for Yield

There is no doubt that we are in volatile times. After an immediate flight to safety where investors flocked to the safest of assets, risk appetite slowly returned and participants began to search for yield. This seems to make sense, since severe economic downturns tend to lead to low interest rate environments as central banks look to stimulate the economy through monetary policy. At the latest BoC rate announcement on October 28, the BoC reinforced its commitment to keeping interest rates at historical lows over the next few years to support an economic recovery that's being hampered by a second wave of COVID-19 cases. The policy statement reads that a rate of 0.25% is the lowest it can go without disrupting the financial system, and stated it will likely be kept there until 2023. The BoC also pledged to continue buying government bonds to suppress longer-term borrowing costs and retain current levels of stimulus, even as they made technical adjustments to the pace of asset purchases.

As we know and have written about many times, fixed-reset preferred shares, which make up 70% of the pref market, have a strong positive relationship to yields. However, lately despite record low yields, we've seen preferred shares, including fixed-resets rally since the downturn. We believe that with the S&P/TSX yielding near a 2020 low and a record low interest rate environment, there has been an increased demand for preferred shares with many of them yielding near 5%.

The Search for Yield



Source: FactSet, Raymond James Ltd.

LRCNs: Changing the Landscape

On July 15, OSFI announced that a bank had proposed a new way for banks to raise Tier 1 capital called Limited Recourse Capital Notes (LRCN). Royal Bank subsequently followed up with an announcement of an offering of C$1.75 bln of non-viability contingent capital (NVCC) Additional Tier 1 (AT1) Limited Recourse Capital Notes, Series 1. Other banks have now followed suit and we have seen a decent flow of new issues.

LRCNs: New Issues

Date	Issuer	Ser	Size (bln)	Maturity	Coup.	Spread
21-Jul-2020	Royal Bank	1	$1.750	24-Nov-2080	4.500%	4.137%
09-Sep-2020	BMO	1	$1.250	26-Nov-2080	4.300%	3.938%
09-Sep-2020	National Bank	1	$0.500	15-Nov-2080	4.300%	3.943%
09-Sep-2020	CIBC	1	$0.750	28-Oct-2080	4.375%	4.000%
22-Oct-2020	Royal Bank	2	$1.250	24-Feb-2081	4.000%	3.617%
26-Oct-2020	Canadian Western Bank	1	$0.175	30-Apr-2081	6.000%	5.621%

Source: FactSet, Company Websites

So what does this mean for the future of preferred shares? In a nutshell, LRCNs are a cheaper way, from a corporation's taxation perspective, to create the AT1 regulatory capital that banks require – LRCNs are recognized as bonds but rank pari passu to preferred shares (i.e. lower in the capital structure than other bonds, but higher than common equity). Although we don't believe LRCNs will completely replace bank preferred share issuance, since only up to 50% of AT1 can be LRCNs, this latest development and flow of LRCNs have propped up the preferred share market for the following reasons:

1) **Reduced Supply:** Banks are one of the largest issuers of preferred shares. If banks no longer issue traditional prefs, or at least not at the same volume, there may be a lack of supply. LRCNs can only be purchased by institutional investors.

2) **Increased Demand:** Bank prefs with high reset spreads have an increased chance of being called and many are now trading near par or even at a premium. Also, with the increased redemption of bank prefs and the lack of issuance, the overall market will shrink and there could be increased demand for other quality preferred shares, particularly from the pref ETFs and mutual funds.

Portfolio Positioning and Where to Look for Opportunities

We remain conservative in our approach as we expect the pref market to trend sideways and advocate a "getting paid to wait" strategy. There remains decent demand for yield and the proliferation of LRCNs will continue to keep market sentiment positive for other issue types. However, most of these factors have already been priced in and with the pandemic continuing in North America, caution may be warranted. The only certainty for now is that yields will remain depressed for quite some time so consider the following when selecting preferred shares or creating a pref portfolio.

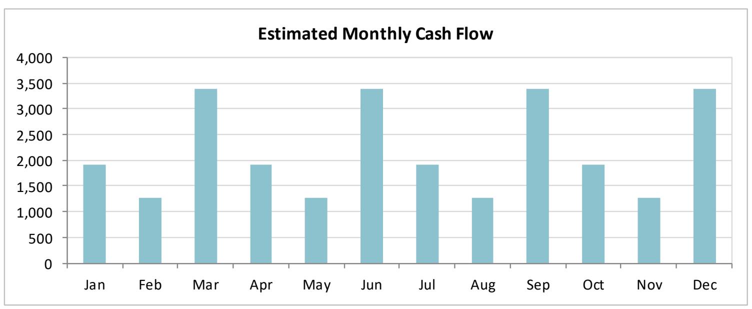
1. ***Remain Market Weight in Fixed-Resets:*** With yields under so much pressure, it would be constructive to be underweight fixed-resets. However, options with high reset spreads and/or minimum yields are less risky than other preferreds out there and may be suitable for investors with longer time horizons.
2. ***Select fixed-resets with high reset spreads and/or minimum yields:*** These fixed-resets suffered the least from the downswing. Even after the latest run up, there are many trading at a discount to par.
3. ***Select perpetuals with good dividends:*** Due to the perpetuity of these prefs, price and yield should in theory be inversely related. Typically when yields are falling perpetual prefs come into favour over the fixed-resets due to their dividend being fixed for life and thus not having a chance of being reset lower in the near future.
4. ***Upgrade credit quality***: Despite all the support from governments and central banks, the global economy remains extremely fragile and downturns are likely. Upgrading credit quality would be prudent.
5. ***Anomalies arise; stay on your toes and be disciplined***: The announcement of the Royal Bank LRCN is a current example of a new development that may have long-term effects on the overall market. Also as mentioned previously, preferred share ETFs and mutual funds can exaggerate movements in the pref market and can cause some preferred shares to be unfairly priced, particularly during sell-offs.

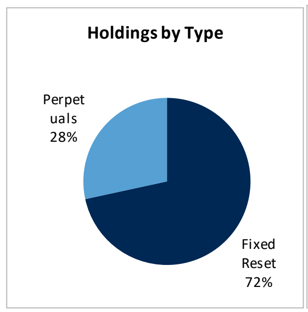
Highlights: Sample Portfolio

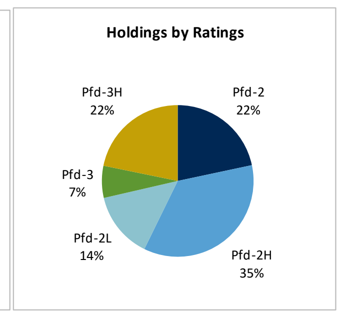
General Information			Rating	Price			Dividend		Possible Calls					
Issuer	Series	Symbol	DBRS	Par	26-Oct-2020	Current Yield	Annual	MMMM-DD	Date	Price	YTC	Shares	Value	Weight
Fixed Reset														**71.6%**
BANK OF MONTREAL	40	BMO.PR.C	Pfd-2	$25.00	$23.93	4.70%	$1.13	FMAN-25	25-May-2022	$25.00	7.76	1,500	$35,895	7.2%
BROOKFIELD RENEWABLE PAR	7	BEP.PR.G	Pfd-3H	$25.00	$24.50	5.61%	$1.38	JAJO-31	31-Jan-2021	$25.00	11.83	1,500	$36,750	7.3%
CANADIAN IMPERIAL BANK	49	CM.PR.T	Pfd-2	$25.00	$24.41	5.33%	$1.30	JAJO-31	30-Apr-2024	$25.00	5.83	1,500	$36,615	7.3%
ENBRIDGE INC	17	ENB.PF.I	Pfd-3H	$25.00	$24.62	5.23%	$1.29	MJSD-1	01-Mar-2022	$25.00	6.58	1,500	$36,930	7.4%
FAIRFAX FINL HLDGS LTD	M	FFH.PR.M	Pfd-3H	$25.00	$19.71	6.35%	$1.25	MJSD-31	31-Mar-2025	$25.00	11.21	1,800	$35,478	7.1%
MANULIFE FINANCIAL CORP	23	MFC.PR.R	Pfd-2H	$25.00	$25.05	4.84%	$1.21	MJSD-19	19-Mar-2022	$25.00	4.98	1,500	$37,575	7.5%
NATIONAL BANK OF CANADA	38	NA.PR.C	Pfd-2L	$25.00	$24.07	4.62%	$1.11	FMAN-15	15-Nov-2022	$25.00	6.36	1,500	$36,105	7.2%
PEMBINA PIPELINE CORP	13	PPL.PR.M	Pfd-3	$25.00	$24.45	5.88%	$1.44	MJSD-1	01-Jun-2021	$25.00	10.19	1,400	$34,230	6.8%
TORONTO-DOMINION BANK	22	TD.PF.L	Pfd-2H	$25.00	$24.64	5.28%	$1.30	JAJO-31	30-Apr-2024	$25.00	5.42	1,400	$34,496	6.9%
TC ENERGY CORP	15	TRP.PR.K	Pfd-2L	$25.00	$24.86	4.93%	$1.23	FMAN-31	31-May-2022	$25.00	5.43	1,400	$34,804	6.9%
Perpetuals														**28.4%**
GREAT-WEST LIFECO INC	S	GWO.PR.S	Pfd-2H	$25.00	$25.33	5.18%	$1.31	MJSD-31	26-Nov-2020	$25.75	23.26	1,400	$35,462	7.1%
GREAT-WEST LIFECO INC	T	GWO.PR.T	Pfd-2H	$25.00	$25.36	5.08%	$1.29	MJSD-31	30-Jun-2022	$26.00	5.19	1,400	$35,504	7.1%
INTACT FINANCIAL CORP	9	IFC.PR.I	Pfd-2	$25.00	$25.75	5.24%	$1.35	MJSD-31	31-Mar-2025	$26.00	5.50	1,400	$36,050	7.2%
POWER FINANCIAL CORP	V	PWF.PR.Z	Pfd-2H	$25.00	$25.23	5.10%	$1.29	JAJO-31	31-Jul-2022	$26.00	6.10	1,400	$35,322	7.0%
TOTAL						5.24%							$501,216	

General Information			Quarterly	Annual	
Issuer	Series	Symbol	Income	Income	Notes
Fixed Reset					
BANK OF MONTREAL	40	BMO.PR.C	$422	$1,688	5yr GoC +3.33%
BROOKFIELD RENEWABLE PAR	7	BEP.PR.G	$516	$2,063	5yr GoC +4.47% (Min 5.50%)
CANADIAN IMPERIAL BANK	49	CM.PR.T	$488	$1,950	5yr GoC +3.31%
ENBRIDGE INC	17	ENB.PF.I	$483	$1,931	5yr GoC +4.14% (Min 5.15%)
FAIRFAX FINL HLDGS LTD	M	FFH.PR.M	$563	$2,251	5yr GoC +3.98%
MANULIFE FINANCIAL CORP	23	MFC.PR.R	$455	$1,819	5yr GoC +3.83%
NATIONAL BANK OF CANADA	38	NA.PR.C	$417	$1,669	5yr GoC +3.43%
PEMBINA PIPELINE CORP	13	PPL.PR.M	$503	$2,013	5yr GoC +4.96% (Min 5.75%)
TORONTO-DOMINION BANK	22	TD.PF.L	$455	$1,820	5yr GoC +3.27%
TC ENERGY CORP	15	TRP.PR.K	$429	$1,715	5yr GoC +3.85% (Min 4.90%)
Perpetuals					
GREAT-WEST LIFECO INC	S	GWO.PR.S	$459	$1,838	
GREAT-WEST LIFECO INC	T	GWO.PR.T	$451	$1,803	
INTACT FINANCIAL CORP	9	IFC.PR.I	$473	$1,890	
POWER FINANCIAL CORP	V	PWF.PR.Z	$451	$1,803	
TOTAL			$6,563	$26,250	

Source: FactSet, Raymond James Ltd.







Most Actively Traded

Trading volume data as at October 27, 2020. 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
TC ENERGY CORP	2	TRP.PR.F	9,122	9,564
BCE INC	AB	BCE.PR.B	7,812	5,160
BROOKFIELD ASSET MAN INC	2	BAM.PR.B	6,527	6,030
BCE INC	AH	BCE.PR.H	6,059	2,061
BOMBARDIER INC	B	BBD.PR.B	5,838	2,015
BCE INC	AD	BCE.PR.D	5,745	4,836
SUN LIFE FINANCIAL INC	9QR	SLF.PR.J	5,094	2,349
THOMSON REUTERS CORP	B	TRI.PR.B	4,991	1,730
BANK OF MONTREAL	26	BMO.PR.A	4,663	11,950
BCE INC	Y	BCE.PR.Y	4,658	3,920

Retractable

Issuer	Series	Symbol	30-Day	5-Day
CANOE EIT INCOME FUND	2	EIT.PR.B	3,471	1,196
CANOE EIT INCOME FUND	1	EIT.PR.A	3,213	1,604
CANADIAN GENL INVESTMENT	4	CGI.PR.D	1,228	3,460
BROOKFIELD INVESTMENTS	A	BRN.PR.A	1,181	1,603
BIRCHCLIFF ENERGY LTD	C	BIR.PR.C	784	1,900

Perpetual

Issuer	Series	Symbol	30-Day	5-Day
EMERA INC	E	EMA.PR.E	25,554	2,915
FORTIS INC	F	FTS.PR.F	24,182	1,295
SUN LIFE FINANCIAL INC	1	SLF.PR.A	22,105	6,480
SUN LIFE FINANCIAL INC	4	SLF.PR.D	13,136	8,274
GREAT-WEST LIFECO INC	T	GWO.PR.T	12,658	5,696
SUN LIFE FINANCIAL INC	3	SLF.PR.C	12,639	7,622
SUN LIFE FINANCIAL INC	2	SLF.PR.B	12,151	4,337
TORONTO-DOMINION BANK	11	TD.PF.F	12,055	27,277
GREAT-WEST LIFECO INC	I	GWO.PR.I	11,168	3,554
GREAT-WEST LIFECO INC	H	GWO.PR.H	10,907	5,389

Fixed-Reset

Issuer	Series	Symbol	30-Day	5-Day
BANK OF NOVA SCOTIA	36	BNS.PR.G	38,325	107,636
CANADIAN IMPERIAL BANK	45	CM.PR.R	35,500	64,525
ENBRIDGE INC	F	ENB.PR.F	31,779	19,689
TORONTO-DOMINION BANK	24	TD.PF.M	30,466	9,620
TORONTO-DOMINION BANK	1	TD.PF.A	25,555	45,152
FORTIS INC	M	FTS.PR.M	24,780	9,820
POWER FINANCIAL CORP	P	PWF.PR.P	24,436	6,241
TORONTO-DOMINION BANK	14	TD.PF.H	22,204	20,852
BANK OF MONTREAL	40	BMO.PR.C	21,370	24,434
CANADIAN IMPERIAL BANK	49	CM.PR.T	20,973	9,852

New Issues in Q3-2020

No issues this quarter.

Credit Rating Changes

Company Name	Date	Curr Rtg	Last Rtg
BNS Split Corp II	10/06/2020	NR	Pfd-2
Canadian Banc Corp	08/11/2020	Pfd-3	Pfd-3H
Dividend 15 Split Corp II	08/10/2020	Pfd-4	Pfd-3L *-
Husky Energy Inc	10/25/2020	WR *-	WR
Husky Energy Inc	10/25/2020	Pfd-3H *-	Pfd-3H
Loblaw Cos Ltd	09/17/2020	Pfd-3H	Pfd-3
Manufacturers Life Insurance Co/The	09/23/2020	Pfd-1	Pfd-1L
Manulife Financial Corp	09/23/2020	Pfd-2H	Pfd-2
S Split Corp	09/21/2020	NR	Pfd-4

Source: FactSet, WR = Withdrawn Rating, NR = No rating has been requested. October 27, 2020.

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	▪ No deemed dividend ▪ Deemed proceeds of disposition is the paid-up capital
Redemption When Paid-Up Capital Is Less Than Par	▪ 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	▪ 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	▪ 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.