

Canadian Preferred Shares Report

Yield Opportunities

After a very volatile fourth quarter in 2018, preferred shares ended 2018 with a disappointing -7.9% total return, as the S&P/TSX Preferred Shares Index is now more closely tied to changes in the Government of Canada (GoC) 5-year yield with fixed-resets representing nearly ¾ of the index. The GoC 5-year yield dropped from a high of 2.49% in October to close off the year at 1.89%. Comparatively, the S&P/TSX Comp TR for 2018 was -8.9% and the FTSE/TMX came in at 0.8%. After many rate hikes in both Canada and the US, and all the geopolitical tensions, such as US-China trade war and Brexit, global growth forecasts were revised lower, and markets finally broke down in the fourth quarter. Preferred shares were not sheltered from the volatility with the S&P/TSX Preferred Shares Index TR posting a fourth quarter return of -10.0%.

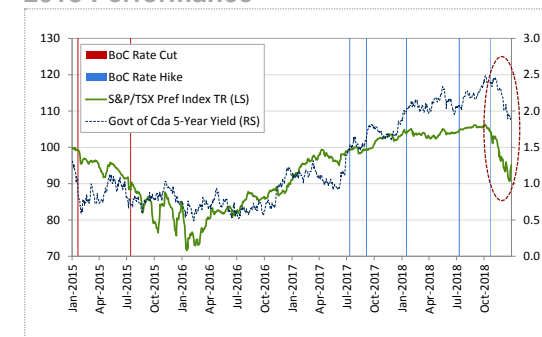
As we move into 2019, the tone of the Bank of Canada has become dovish and the commentary is suggesting that the pace of interest rate hikes will decrease. Despite the recent round of instability, there have been pockets of value surfacing, especially in preferred shares that are resetting in the next 12 months. Within the fixed-reset universe, over 77% will have dividends increased at the next reset date if the GoC 5-year yield is at 1.90%. For those resetting in 2019, the percentage climbs to 85%.

We are looking for yields to move modestly higher with the Bank of Canada (BoC) looking to raise rates once this year. As we are still in an upwards trajectory in rates, we still favour fixed-resets over perpetuials. We continue to recommend using preferred shares in addition to a laddered bond to enhance yield. We suggest looking for some shorter-term trading opportunities in fixed-resets resetting dividends higher in 2019.

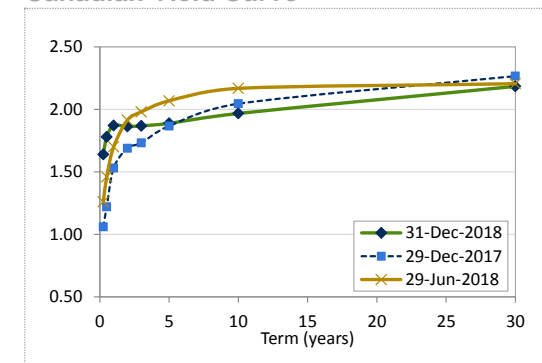
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2018 Performance



Canadian Yield Curve



Source: Bloomberg, Raymond James Ltd.

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Fixed Income

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

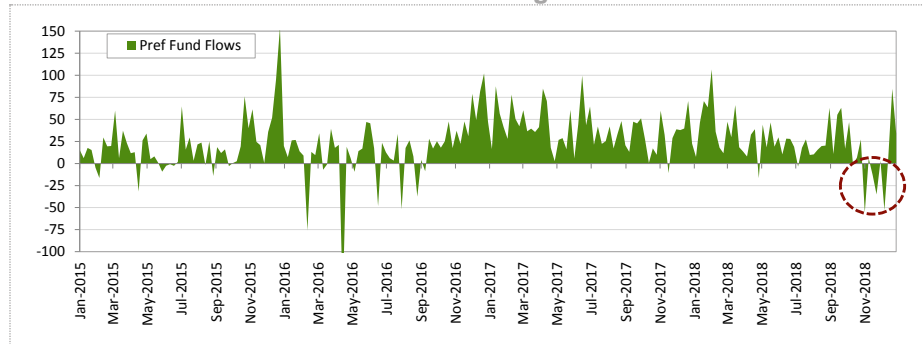
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Volatility in the Fourth Quarter

Leading into the fourth quarter, preferred shares were performing well in 2018, outpacing both Canadian equities and bonds. With the prospect of a rate hike before year end and another in the first quarter of 2019, fixed-resets were poised to move higher. However, 2018 ended with a tremendous amount of volatility in the equity markets and prefs did not escape the storm, ending the quarter with a total return of -10.1%. The Government of Canada (GoC) 5-year yield dropped from a high of 2.5% in the beginning of October to close the year at 1.9%. So why was the downturn so dramatic in the pref market?

- **Selling via ETFs:** There are now over 10 preferred shares ETFs and many investors have gravitated to using ETFs instead of buying individual preferred shares. We have seen for the first time in many many months, fund flows out of those ETFs which showed up as a broad-base sell-off.

Preferred Share ETFs: Fund Flows Go Negative in Q4-2018



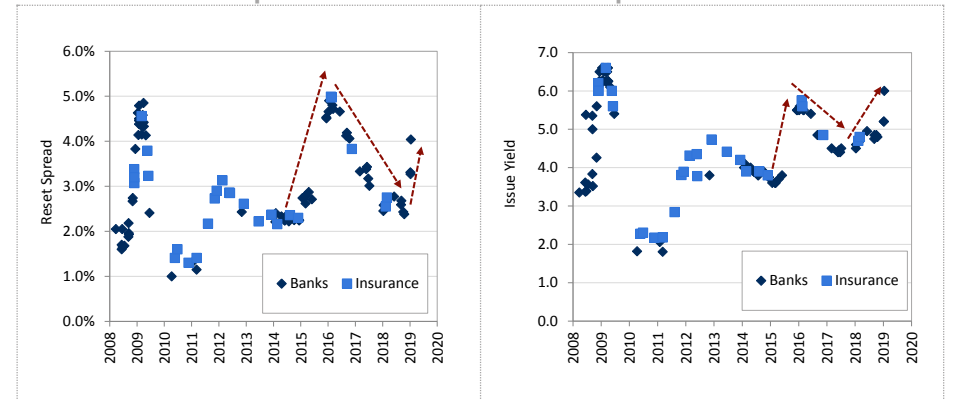
Source: Bloomberg, Raymond James Ltd.

- **Retail Driven:** Preferred shares have always been a retail product, which comes with problems of liquidity. So when we add together illiquidity and ETF selling, the speed and the amount of the downturn is accelerated and excessive.
- **Memories of 2015:** Investors don't forget losses, and preferred shares investors had a terrible 2015. When looking at the GoC 5-year yield drop from 2.5% in October 2018 to below 2.0% in December, there were definitely some investors who did not want to see a repeat of 2015. In 2015, the GoC 5-year yield dropped from a high of 1.4% to nearly 0.5%.

Issuance Has Picked Up

With the ramp up in volatility, the fourth quarter was very quiet in terms of preferred shares issuance. However, over the past several weeks we have seen the banks start to issue again with higher resets and yields which is indicative of what market sentiment is like.

New Issue Reset-Spreads and Yields Have Jumped



Source: Bloomberg, Raymond James Ltd.

2019 Outlook

As we begin 2019, the outlook for preferred shares has changed from several months ago. According to economic consensus on Bloomberg, the BoC is looking to have one hike in mid- to late-2019, and the number of Fed hikes for 2019 has dropped down to one, possibly two. At the most recent BoC rate meeting on January 9, the BoC left rates unchanged for the second straight decision citing a temporary slowdown that will create a modest amount of excess capacity and curb inflationary pressures. Governor Poloz said that the Canadian economy is further away from their target than in October, and is taking a "detour" because of the oil shock. Policymakers also stated that the 5 hikes since mid-2017 may be having a stronger impact as indicated by weaker-than-expected consumption and housing activity. Slowing growth is not just happening in Canada, the IMF just recently (Jan 21) revised down its estimates for global growth, warning that the expansion seen in recent years is losing momentum. The Fund now projects a 3.5% global growth

rate for 2019 and 3.6% for 2020. These are 0.2% and 0.1% below its last forecasts in October — making it the second negative revision in three months.

Despite all the negativity, there are some bright spots in the preferred shares market. Due to the sell-off in preferred shares in the last quarter, we believe that there has been some value uncovered. Below are some of the reasons of why we are buyers:

- **Rising Rate Environment:** Despite the latest dovish tone out of the BoC, we are still in an upwards trajectory of rates. The latest BoC commentary (Jan 9) stated, the “Governing Council continues to judge that the policy interest rate will need to rise over time into a neutral range to achieve the inflation target. The appropriate pace of rate increases will depend on how the outlook evolves, with a particular focus on developments in oil markets, the Canadian housing market, and global trade policy.”
- **Dividends are Going Higher:** We like fixed-resets that have a reset date in the next 12 months as their dividend will reset higher. Looking at the fixed-reset preferred shares universe, we see that even at a GoC 5-year yield of 1.9%, 85% of preferreds resetting in 2019 will have their dividends move higher by 6.7% on average.

GoC 5-Year	Resetting in 2019		All Fixed Resets	
	% of Issues Resetting Higher	Avg Dividend Increase (%)	% of Issues Resetting Higher	Avg Dividend Increase (%)
1.90%	84.8	6.7	77.1%	19.2
2.00%	93.5	8.3	78.9%	21.3
2.10%	97.8	10.2	84.3%	22.2

Source: Bloomberg, Raymond James Ltd.

Conclusion: Portfolio Positioning

Below are guidelines that investors can use to position a preferred shares portfolio.

- **Overweight Fixed-Resets, Underweight Perpetuals:** Rising rates are not good for interest-rate sensitive perpetuals, but better for fixed-reset whose dividends are reset off a benchmark yield. Higher yields lead to higher dividends on these products. Owning some perpetuals helps mitigate risk if yields continue to go sideways or lower.

- **Buy Issues With Near-Term Reset Dates Looking to Increase the Dividend:** There may be a little bit of math involved but unlike 2015 when a lot of dividends were being reduced, we are now in an environment where dividends will likely reset higher for fixed-resets.

Example

Symbol	Rating	Reset	Reset Date	Ann. Div.	New Div. GoC 5-Year @	
					1.90%	2.10%
BAM.PF.F	Pfd-2L	+2.86%	30-Sep-2019	\$1.125	\$1.19	\$1.24
FFH.PR.C	Pfd-3H	+3.15%	31-Dec-2019	\$1.1445	\$1.263	\$1.313
HSE.PR.C	Pfd-2L	+3.13%	31-Dec-2019	\$1.125	\$1.258	\$1.308

Source: Bloomberg, Raymond James Ltd. As at January 22, 2019.

- **Increase Weighting in High-Reset Preferreds:** Most high reset preferreds were trading at large premiums before the volatility started in October. However, some of these have been dragged down with the selling in ETFs providing a good entry point for issues which are now trading near par or even at a discount. These high-reset preferreds provide a way to offset some of the risk because they have a higher probability of being called on their next reset date.

Example

Symbol	Rating	Reset	Reset Date	Ann. Div.	New Div. GoC 5-Year @	
					1.90%	2.10%
MFC.PR.O	Pfd-2	+4.97%	19-Jun-2021	\$1.400	\$1.718	\$1.768
TRP.PR.K	Pfd-2L	+3.85% (Min 4.90%)	31-May-2022	\$1.225	\$1.438	\$1.488
ENB.PF.I	Pfd-3H	+4.14% (Min 5.15%)	01-Mar-2022	\$1.288	\$1.510	\$1.560

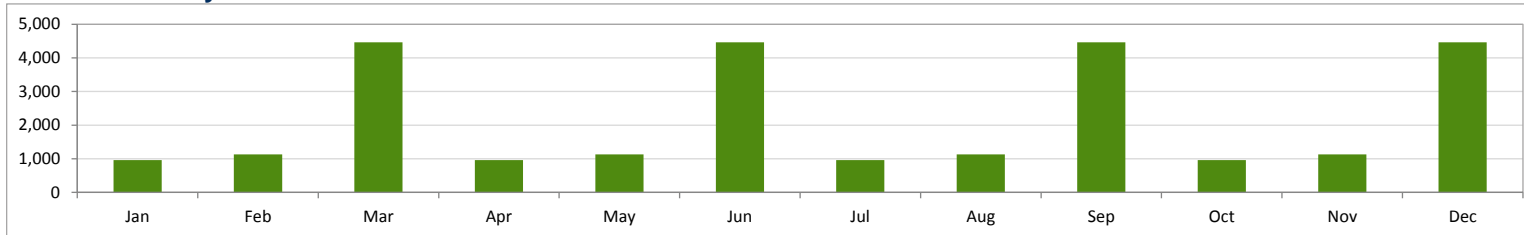
Source: Bloomberg, Raymond James Ltd. As at January 22, 2019.

Highlights: Sample Portfolio

Issuer	General Information		Rating	Par	Pricing		Dividend		Possible Calls			Shares	Value	Weight
	Series	Symbol			DBRS	Last	Current Yield	Annual	MMMM-DD	Date	Price			
Fixed Reset														
BROOKFIELD ASSET MAN INC	40	BAM.PF.F	Pfd-2L	\$25.00	\$20.90	5.38%	\$1.13	MJSD-31	30-Sep-2019	\$25.00	33.26	2,200	\$45,980	9.2%
ENBRIDGE INC	17	ENB.PF.I	Pfd-3H	\$25.00	\$24.28	5.30%	\$1.29	MJSD-1	01-Mar-2022	\$25.00	6.35	2,200	\$53,416	10.7%
FAIRFAX FINL HLDGS LTD	C	FFH.PR.C	Pfd-3H	\$25.00	\$20.53	5.58%	\$1.14	MJSD-31	31-Dec-2019	\$25.00	26.81	2,200	\$45,155	9.1%
HUSKY ENERGY INC	3	HSE.PR.C	Pfd-2L	\$25.00	\$19.98	5.63%	\$1.13	MJSD-31	31-Dec-2019	\$25.00	27.68	2,200	\$43,956	8.8%
MANULIFE FINANCIAL CORP	21	MFC.PR.O	Pfd-2	\$25.00	\$25.74	5.44%	\$1.40	MJSD-19	19-Jun-2021	\$25.00	4.44	2,200	\$56,628	11.4%
MANULIFE FINANCIAL CORP	23	MFC.PR.R	Pfd-2	\$25.00	\$24.16	5.02%	\$1.21	MJSD-19	19-Mar-2022	\$25.00	6.16	2,200	\$53,152	10.7%
TORONTO-DOMINION BANK	9	TD.PF.E	Pfd-2	\$25.00	\$22.01	4.20%	\$0.93	JAJO-31	31-Oct-2020	\$25.00	10.82	2,200	\$48,422	9.7%
TRANSCANADA CORP	15	TRP.PR.K	Pfd-2L	\$25.00	\$24.16	5.07%	\$1.23	FMAN-31	31-May-2022	\$25.00	6.18	2,200	\$53,152	10.7%
Perpetuals														
GREAT-WEST LIFECO INC	T	GWO.PR.T	Pfd-2H	\$25.00	\$22.78	5.65%	\$1.29	MJSD-31	30-Jun-2026	\$25.00	5.62	1,400	\$31,892	6.4%
POWER FINANCIAL CORP	V	PWF.PR.Z	Pfd-2H	\$25.00	\$22.34	5.76%	\$1.29	JAJO-31	31-Jul-2024	\$25.00	6.14	1,400	\$31,276	6.3%
ROYAL BANK OF CANADA	BJ	RY.PR.P	Pfd-2	\$25.00	\$25.19	5.21%	\$1.31	FMAN-24	24-Feb-2025	\$25.00	5.14	1,400	\$35,266	7.1%
TOTAL						5.26%							\$498,295	

Issuer	General Information		Quarterly Income	Annual Income	
	Series	Symbol			
Fixed Reset					
BROOKFIELD ASSET MAN INC	40	BAM.PF.F	\$619	\$2,475	5yr GoC +2.86%
ENBRIDGE INC	17	ENB.PF.I	\$708	\$2,833	5yr GoC +4.14% (Min 5.15%)
FAIRFAX FINL HLDGS LTD	C	FFH.PR.C	\$629	\$2,518	5yr GoC +3.15%
HUSKY ENERGY INC	3	HSE.PR.C	\$619	\$2,475	5yr GoC +3.13%
MANULIFE FINANCIAL CORP	21	MFC.PR.O	\$770	\$3,080	5yr GoC +4.97%
MANULIFE FINANCIAL CORP	23	MFC.PR.R	\$667	\$2,668	5yr GoC +3.83%
TORONTO-DOMINION BANK	9	TD.PF.E	\$509	\$2,035	5yr GoC +2.87%
TRANSCANADA CORP	15	TRP.PR.K	\$674	\$2,695	5yr GoC +3.85% (Min 4.90%)
Perpetuals					
GREAT-WEST LIFECO INC	T	GWO.PR.T	\$451	\$1,803	Par call at \$25 on June 30, 2023
POWER FINANCIAL CORP	V	PWF.PR.Z	\$451	\$1,803	Par call at \$25 on July 31, 2024
ROYAL BANK OF CANADA	BJ	RY.PR.P	\$459	\$1,838	Par call at \$25 on February 24, 2025
TOTAL			\$6,555	\$26,220	

Cash Flow Analysis



Source: Bloomberg, Raymond James Ltd., Prices as at January 22, 2019.

Most Actively Traded

Trading volume data as at January 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	Y	BCE.PR.Y	17,013	53,414
BANK OF NOVA SCOTIA	23	BNS.PR.C	15,532	17,750
TRANSCANADA CORP	2	TRP.PR.F	14,673	4,674
ROYAL BANK OF CANADA	AK	RY.PR.K	14,321	37,553
SUN LIFE FINANCIAL INC	9QR	SLF.PR.J	14,197	3,684
BCE INC	AE	BCE.PR.E	13,695	2,155
BCE INC	AD	BCE.PR.D	12,210	8,072
BROOKFIELD ASSET MAN INC	2	BAM.PR.B	8,898	11,900
THOMSON REUTERS CORP	B	TRI.PR.B	7,621	3,900
BCE INC	AH	BCE.PR.H	7,467	5,985

Retractable

Issuer	Series	Symbol	30-Day	5-Day
CANOE EIT INCOME FUND	1	EIT.PR.A	4,579	5,276
CANOE EIT INCOME FUND	2	EIT.PR.B	2,555	4,101
CANADIAN GENL INVESTMENT	4	CGI.PR.D	2,075	2,226
BIRCHCLIFF ENERGY LTD	C	BIR.PR.C	1,403	843
BROOKFIELD INVESTMENTS	A	BRN.PR.A	434	210

Perpetual

Issuer	Series	Symbol	30-Day	5-Day
ROYAL BANK OF CANADA	W	RY.PR.W	20,225	4,499
BROOKFIELD ASSET MAN INC	37	BAM.PF.D	17,472	53,343
ATLANTIC PWR PFD EQUITY	1	AZP.PR.A	16,030	2,564
MANULIFE FINANCIAL CORP	3	MFC.PR.C	13,785	7,496
POWER FINANCIAL CORP	E	PWF.PR.F	13,259	45,645
SUN LIFE FINANCIAL INC	3	SLF.PR.C	11,390	5,437
GREAT-WEST LIFECO INC	G	GWO.PR.G	11,295	4,288
MANULIFE FINANCIAL	2	MFC.PR.B	10,999	8,221
POWER FINANCIAL CORP	F	PWF.PR.G	10,929	27,907
GREAT-WEST LIFECO INC	I	GWO.PR.I	10,579	4,925

Fixed-Reset

Issuer	Series	Symbol	30-Day	5-Day
BANK OF NOVA SCOTIA	40	BNS.PR.I	44,737	88,252
ROYAL BANK OF CANADA	BO	RY.PR.S	44,017	57,283
CANADIAN IMPERIAL BANK	45	CM.PR.R	40,709	68,118
TORONTO-DOMINION BANK	20	TD.PF.K	31,608	12,554
CANADIAN IMPERIAL BANK	47	CM.PR.S	30,253	12,770
TORONTO-DOMINION BANK	14	TD.PF.H	29,901	41,820
ALTAGAS LTD	I	ALA.PR.I	29,429	8,408
BANK OF MONTREAL	27	BMO.PR.S	29,283	12,860
ALTAGAS LTD	A	ALA.PR.A	27,101	53,564
ENBRIDGE INC	17	ENB.PF.I	25,909	8,000

New Issues in Q4-2018

Bank of Nova Scotia, Series 40

- **Symbol:** BNS.PR.I
- **Type:** Fixed-Reset, Non-Cumulative
- **Issue:** \$25.00 | 12.0 million shares | October 12, 2018
- **Rating:** Pfd-2 (DBRS)
- **Dividend:** 4.85% | JAJ0-26
- **Notes:** Coupon is 4.85% until January 27, 2024, thereafter resets every 5 years @+2.43% over 5-year GoC bond yield.

Partners Value Split, Series 9

- **Symbol:** PVS.PR.G
- **Type:** Synthetic, Non-Cumulative
- **Issue:** \$25.00 | 6.0 million shares | November 26, 2018
- **Rating:** Pfd-2L (DBRS)
- **Dividend:** 4.85% | FMAN-31
- **Notes:** Coupon is 4.90%. Possible call date is February 28, 2026.

Royal Bank, Series BO

- **Symbol:** RY.PR.S
- **Type:** Fixed-Reset, Non-Cumulative
- **Issue:** \$25.00 | 12.0 million shares | November 2, 2018
- **Rating:** Pfd-2 (DBRS)
- **Dividend:** 4.90% | FMAN-24
- **Notes:** Coupon is 4.90% until February 24, 2024, thereafter resets every 5 years @+2.38% over 5-year GoC bond yield.

Credit Rating Changes

Company Name	Date	Agency	Curr Rtg	Last Rtg
AltaGas Ltd	12/21/2018	DBRS	Pfd-3L	Pfd-3 *
Big 8 Split Inc	12/17/2018	DBRS	WR	Pfd-2
Enbridge Gas Distribution Inc	11/30/2018	DBRS	NR	Pfd-2L

Source: Bloomberg, WR = Withdrawn Rating, NR = No rating has been requested. December 31, 2018.

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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