

Canadian Preferred Shares Report

January 28, 2021

Fixed Income Group

Inside this Report

- Going Down Memory Lane.....2
- The Supply/Demand Effects of LRCNs.....2
- The Song Remains the Same for 20212
- Portfolio Positioning and Where to Look for Opportunities3
- New Issues in Q4-20204
- Credit Rating Changes4
- Highlights: Sample Portfolio5
- Most Actively Traded.....6
- Appendix A: Yield Tables7
- Appendix B: Credit Ratings Comparisons7
- Appendix C: Education and Glossary8
- Disclaimer** 10

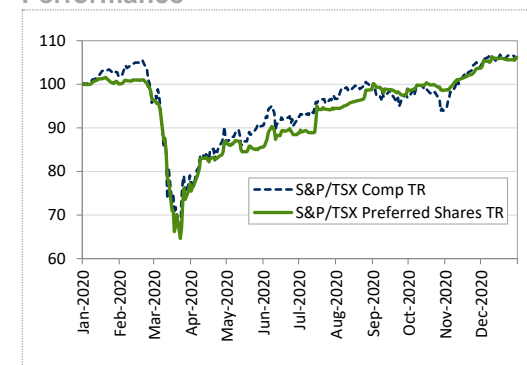
The Rebound with More to Come

As with every publication looking back on 2020, we must acknowledge that it was an unprecedented year, but also a very interesting and surprising one for Canadian preferred shares. Sitting in the middle of a lockdown back in March, we would not have predicted that prefs would be where they are today. This is especially true given yields were at record lows and looking to remain that way for some time. However, one thing that we've come to know is that the landscape can change in an instant due to new regulations, clauses, or product sub-types – the OSFI announcement of NVCCs in 2013, introduction of minimum/floor yield fixed-resets in 2016, and emergence of Limited Recourse Capital Notes (LRCNs) in 2020 all had major impacts on preferred shares causing investors to re-evaluate their holdings.

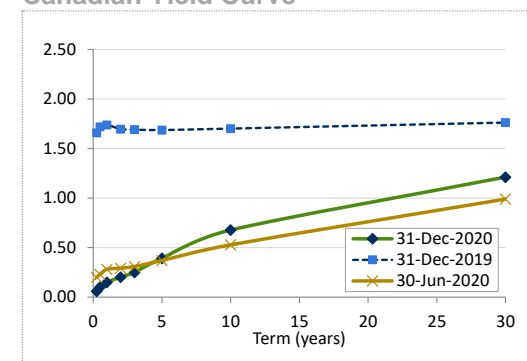
Going into 2021, we see some light at the end of the tunnel as vaccine hopes elevate market sentiment. However, we are not out of the woods yet and central banks will need to continue to keep markets and economies well supported, like the US as they try to push through their second round of over a trillion dollars in stimulus. Closer to home, the Bank of Canada (BoC) have kept rates at 0.25% since the initial historic rate cuts and consideration of negative rates have been avoided for now.

As investors continue to look for pockets of value, we believe there is still some upside as the imbalance between supply and demand will continue. For this reason, we remain market weight in fixed-resets as we see good relative value at a time when yield is difficult to find. We are firm believers that preferred shares should not be used as a bond replacement but as a vehicle for yield enhancement, complementing other holdings in a portfolio.

Performance



Canadian Yield Curve



Phil Kwon
Fixed Income

Source: FactSet, Raymond James Ltd.

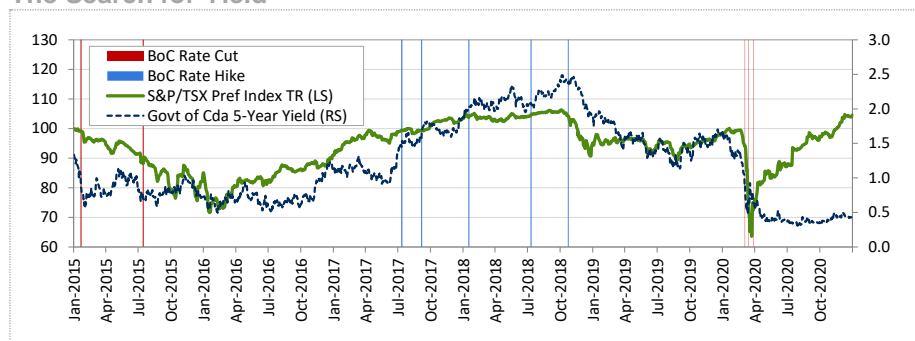
Please read domestic and foreign disclosure/risk information beginning on page 10.

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

Going Down Memory Lane

In March 2020, yields plummeted and investors felt the pain as capitulation set in and markets tanked. Preferred shares did not escape the selloff, and even perpetuals which tend to be positively correlated to long bonds and negatively correlated to yields, saw solid credit quality issues with nice dividends fall nearly 30%. Fixed-resets, which have a strong positive relationship to yields (particularly to its dividend benchmark, the GoC 5-year yield), were more negatively affected. Bank reset prefs with 400+ basis point reset spreads, which were trading at a premium at the beginning of March were down below \$20 in a matter of weeks.

The Search for Yield



Source: FactSet, Raymond James Ltd.

Preferred shares investors were reminded of 2015 when the BoC cut rates multiple times and sent the pref market in a downward trajectory. Five years ago after that event, the pref market stabilized as buyers came in where they saw value and the market was reinvigorated by the introduction of minimum yield fixed-reset preferred shares. This time around, we again saw the arrival of buyers in search of yield and the emergence of a new investment product that helped the pref market get out of the weeds - the Limited Recourse Capital Note (LRCN). The LRCN announcement in the summer helped propel the pref market to over a 60% total return from the bottom in March and a 2020 return of 6.2%.

The Supply/Demand Effects of LRCNs

LRCNs are seen as 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.

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%

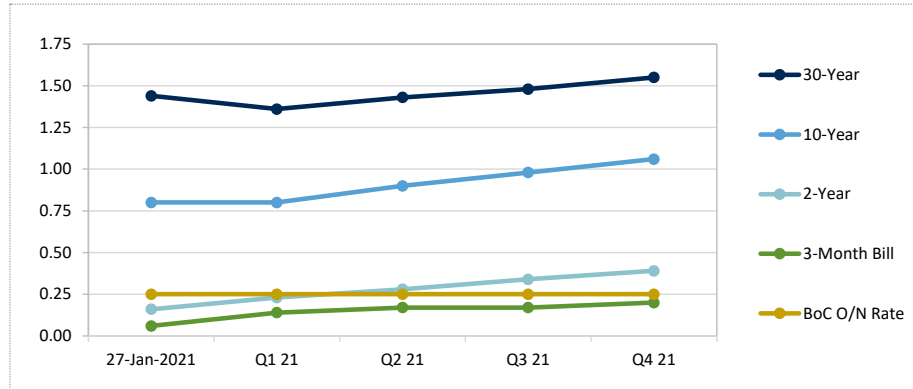
Source: FactSet, Company Websites

The Song Remains the Same for 2021

Market sentiment has somewhat improved to start the year, with several COVID-19 vaccines deemed effective and a global immunization effort in full effect. However, with the amount of stimulus that has been pumped into the global economy, and likely more on the way, economists don’t see rates rising any time soon. The BoC has not cut rates since the three 50 bps cuts that occurred in March. At the latest policy announcement on Jan. 20, 2021, the BoC left rates unchanged and had a more positive tone on their outlook for Canada’s economy, choosing to look past a weak

start to 2021 as vaccine efforts accelerate. Governor Tiff Macklem said the economy remains on a two-year timeline to fully repair damage from the pandemic and doesn't currently need additional support, even amid a wave of new COVID-19 cases and lockdowns. The language effectively eliminated speculation, at least for now, that the BoC could cut already historically-low borrowing costs.

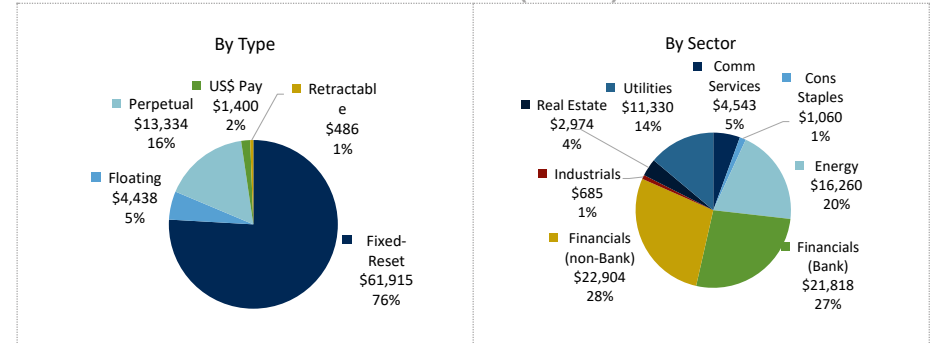
Consensus Forecasted Canada Bond Yields



Source: FactSet, Raymond James Ltd.

So with interest rates near record lows and looking to stay that way for at least the next year, the search for yield continues. Preferred shares, whether it be perpetuals or fixed-resets, can offer yields of 5% or even more and will continue to be in a market where supply/demand issues are unbalanced. The factors that helped propel preferred shares in the second half of 2020 should continue into 2021 but may not encourage the same magnitude of growth. With the proliferation of pref ETFs that will need to replace redeemed shares, we expect the market to continue to do well in 2021, particularly non-bank preferred shares with good credit quality, high reset spreads and those with built-in minimum yields. It is expected that nearly C\$5 bln in bank fixed-reset preferred shares could be redeemed in 2021.

Canadian Preferred Shares Breakdown (\$ mlns)



Source: FactSet, Raymond James Ltd. As at January 27, 2021.

Values are calculated using par pricing and shares outstanding. Structured/synthetic preferred shares were not included

Portfolio Positioning and Where to Look for Opportunities

With the supply/demand imbalance still in place we are positive on preferred shares. At the same time, we remain conservative in our approach as the broader economy is still not out of the woods and things could get worse before they get better. There remains decent demand for yield and the proliferation of LRCNs will continue to keep market sentiment positive for outstanding preferred shares. 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 perpetuals with good dividends:** Due to the perpetuity of these prefs, price and long-term bond yields 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.

3. **Upgrade credit quality:** Despite all the support from governments and central banks, the global economy remains extremely fragile and downturns are still a risk. Upgrading credit quality would be prudent.
4. **Anomalies arise; stay on your toes and be disciplined:** The introduction of LRCNs 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.

New Issues in Q4-2020

No issues this quarter.

Credit Rating Changes

Company Name	Date	Curr Rtg	Last Rtg
Artis Real Estate Investment Trust	17-Dec-2020	Pfd-3L *-	Pfd-3L
BNS Split Corp II	06-Oct-2020	NR	Pfd-2
Husky Energy Inc	05-Jan-2021	Pfd-3	Pfd-3H *-
Husky Energy Inc	25-Oct-2020	Pfd-3H *-	Pfd-3H
Industrial Alliance Ins & Financial Services	10-Dec-2020	Pfd-2H *+	Pfd-2H
Real Estate & E-Commerce Split Corp/Fund	19-Nov-2020	Pfd-2L	
Shaw Communications Inc	04-Dec-2020	Pfd-3	Pfd-3L

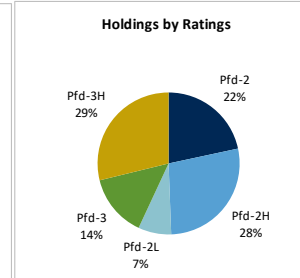
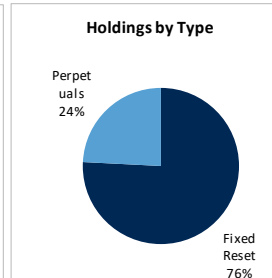
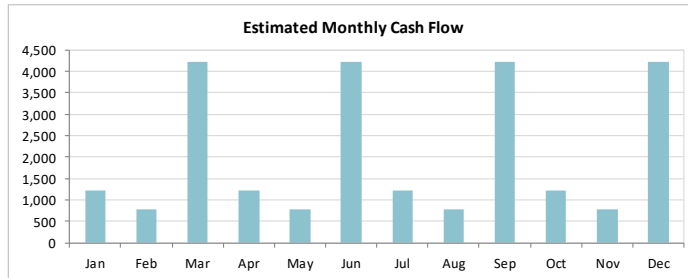
Source: FactSet, WR = Withdrawn Rating, NR = No rating has been requested. January 26, 2021.

Highlights: Sample Portfolio

Issuer	General Information		Rating	Price			Dividend		Possible Calls			Shares	Value	Weight
	Series	Symbol	DBRS	Par	27-Jan-2021	Current Yield	Annual	MMMM-DD	Date	Price	YTC			
Fixed Reset														
ALTAGAS LTD	K	ALA.PR.K	Pfd-3L	\$25.00	\$24.72	5.06%	\$1.25	MJSD-31	31-Mar-2022	\$25.00	5.44	1,400	\$34,608	6.9%
BANK OF MONTREAL	40	BMO.PR.C	Pfd-2	\$25.00	\$25.08	4.49%	\$1.13	FMAN-25	25-May-2022	\$25.00	4.05	1,400	\$35,112	7.0%
BCE INC	AO	BCE.PR.O	Pfd-3	\$25.00	\$21.51	4.95%	\$1.07	MJSD-31	31-Mar-2022	\$25.00	17.74	1,600	\$34,416	6.9%
CANADIAN IMPERIAL BANK	49	CM.PR.T	Pfd-2	\$25.00	\$25.24	5.15%	\$1.30	JAO-31	30-Apr-2024	\$25.00	4.55	1,400	\$35,336	7.1%
ENBRIDGE INC	17	ENB.PF.I	Pfd-3H	\$25.00	\$24.86	5.18%	\$1.29	MJSD-1	01-Mar-2022	\$25.00	6.09	1,400	\$34,804	7.0%
ENBRIDGE INC	19	ENB.PF.K	Pfd-3H	\$25.00	\$24.08	5.09%	\$1.23	MJSD-1	01-Mar-2023	\$25.00	6.82	1,400	\$33,712	6.8%
FAIRFAX FINL.HDGS LTD	M	FFH.PR.M	Pfd-3H	\$25.00	\$22.12	5.65%	\$1.25	MJSD-31	31-Mar-2025	\$25.00	8.18	1,600	\$35,392	7.1%
MANULIFE FINANCIAL CORP	1-7	MFC.PR.H	Pfd-2H	\$25.00	\$24.08	4.48%	\$1.08	MJSD-19	19-Mar-2022	\$25.00	6.70	1,400	\$33,712	6.8%
NATIONAL BANK OF CANADA	38	NA.PR.C	Pfd-2L	\$25.00	\$24.93	4.46%	\$1.11	FMAN-15	15-Nov-2022	\$25.00	4.58	1,400	\$34,902	7.0%
PEMBINA PIPELINE CORP	19	PPL.PR.S	Pfd-3	\$25.00	\$22.63	5.17%	\$1.17	MJSD-31	30-Jun-2025	\$25.00	7.03	1,400	\$31,682	6.4%
TORONTO-DOMINION BANK	16	TD.PF.I	Pfd-2H	\$25.00	\$24.38	4.61%	\$1.13	JAO-31	31-Oct-2022	\$25.00	5.13	1,400	\$34,132	6.8%
Perpetuals														
ENBRIDGE INC	A	ENB.PR.A	Pfd-3H	\$25.00	\$24.78	5.55%	\$1.38	MJSD-1	01-Mar-2021	\$25.00	21.39	1,200	\$29,736	6.0%
GREAT-WEST LIFECO INC	S	GWO.PR.S	Pfd-2H	\$25.00	\$25.26	5.20%	\$1.31	MJSD-31	01-Mar-2021	\$25.75	24.33	1,200	\$30,312	6.1%
GREAT-WEST LIFECO INC	T	GWO.PR.T	Pfd-2H	\$25.00	\$25.56	5.04%	\$1.29	MJSD-31	30-Jun-2022	\$26.00	6.06	1,200	\$30,672	6.2%
POWER CORPORATION CANADA	D	POW.PR.D	Pfd-2	\$25.00	\$24.90	5.02%	\$1.25	JAO-15	01-Mar-2021	\$25.00	7.67	1,200	\$29,880	6.0%
TOTAL						5.00%							\$498,408	

Issuer	General Information		Quarterly	Annual	Notes
	Series	Symbol	Income	Income	
Fixed Reset					
ALTAGAS LTD	K	ALA.PR.K	\$438	\$1,750	5yr GoC +3.80% (Min 5.00%)
BANK OF MONTREAL	40	BMO.PR.C	\$394	\$1,575	5yr GoC +3.33%
BCE INC	AO	BCE.PR.O	\$426	\$1,704	5yr GoC +3.09%
CANADIAN IMPERIAL BANK	49	CM.PR.T	\$455	\$1,820	5yr GoC +3.31%
ENBRIDGE INC	17	ENB.PF.I	\$451	\$1,803	5yr GoC +4.14% (Min 5.15%)
ENBRIDGE INC	19	ENB.PF.K	\$429	\$1,715	5yr GoC +3.17% (Min 4.90%)
FAIRFAX FINL.HDGS LTD	M	FFH.PR.M	\$500	\$2,001	5yr GoC +3.98%
MANULIFE FINANCIAL CORP	1-7	MFC.PR.H	\$377	\$1,509	5yr GoC +3.13%
NATIONAL BANK OF CANADA	38	NA.PR.C	\$389	\$1,558	5yr GoC +3.43%
PEMBINA PIPELINE CORP	19	PPL.PR.S	\$410	\$1,639	5yr GoC +4.27% (Was VSN.PR.E)
TORONTO-DOMINION BANK	16	TD.PF.I	\$394	\$1,575	5yr GoC +3.01%
Perpetuals					
ENBRIDGE INC	A	ENB.PR.A	\$413	\$1,650	
GREAT-WEST LIFECO INC	S	GWO.PR.S	\$394	\$1,575	
GREAT-WEST LIFECO INC	T	GWO.PR.T	\$386	\$1,545	
POWER CORPORATION CANADA	D	POW.PR.D	\$375	\$1,500	
TOTAL			\$6,230	\$24,919	

Source: FactSet, Raymond James Ltd.



Most Actively Traded

Trading volume data as at January 26, 2021. 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	AH	BCE.PR.H	15,670	2,569
BCE INC	AJ	BCE.PR.J	11,972	35,040
BROOKFIELD ASSET MAN INC	2	BAM.PR.B	11,873	5,913
BCE INC	Y	BCE.PR.Y	11,041	3,089
BCE INC	AD	BCE.PR.D	10,317	8,890
BCE INC	AB	BCE.PR.B	8,064	4,159
BOMBARDIER INC	B	BBD.PR.B	6,858	9,008
BROOKFIELD ASSET MGMT	13	BAM.PR.K	5,102	3,618
ATLANTIC PWR PFD EQUITY	3	AZP.PR.C	4,734	11,091
BCE INC	AN	BCE.PR.N	4,532	20,254

Retractable

Issuer	Series	Symbol	30-Day	5-Day
CANOE EIT INCOME FUND	2	EIT.PR.B	1,460	951
BROOKFIELD INVESTMENTS	A	BRN.PR.A	1,332	1,400
CANADIAN GENL INVESTMENT	4	CGI.PR.D	1,282	1,500
CANOE EIT INCOME FUND	1	EIT.PR.A	1,241	1,980
BIRCHCLIFF ENERGY LTD	C	BIR.PR.C	796	343

Perpetual

Issuer	Series	Symbol	30-Day	5-Day
BOMBARDIER INC	4	BBD.PR.C	17,005	11,726
ATLANTIC PWR PFD EQUITY	1	AZP.PR.A	13,176	20,779
SUN LIFE FINANCIAL INC	2	SLF.PR.B	8,946	4,097
POWER FINANCIAL CORP	K	PWF.PR.K	8,895	36,293
SUN LIFE FINANCIAL INC	1	SLF.PR.A	8,687	14,067
INTACT FINANCIAL CORP	9	IFC.PR.I	7,905	7,102
ENBRIDGE INC	A	ENB.PR.A	7,625	15,426
SUN LIFE FINANCIAL INC	3	SLF.PR.C	7,275	2,644
ROYAL BANK OF CANADA	BH	RY.PR.N	7,267	1,780
GREAT-WEST LIFECO INC	I	GWO.PR.I	6,815	9,070

Fixed-Reset

Issuer	Series	Symbol	30-Day	5-Day
BCE INC	AK	BCE.PR.K	55,689	88,765
ENBRIDGE INC	17	ENB.PF.I	47,898	25,910
NATIONAL BANK OF CANADA	36	NA.PR.A	35,162	3,022
ENBRIDGE INC	11	ENB.PF.C	33,621	7,168
TORONTO-DOMINION BANK	14	TD.PF.H	32,489	46,865
ENBRIDGE INC	B	ENB.PR.B	31,390	75,065
BCE INC	AC	BCE.PR.C	30,312	24,423
ROYAL BANK OF CANADA	BF	RY.PR.M	30,244	130,614
TORONTO-DOMINION BANK	12	TD.PF.G	27,746	15,141
TORONTO-DOMINION BANK	1	TD.PF.A	27,564	16,755

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
- Resettles 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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