

Canadian Preferred Shares Report

April 28, 2022

Fixed Income Group

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Prefs in a Rising Rate Environment

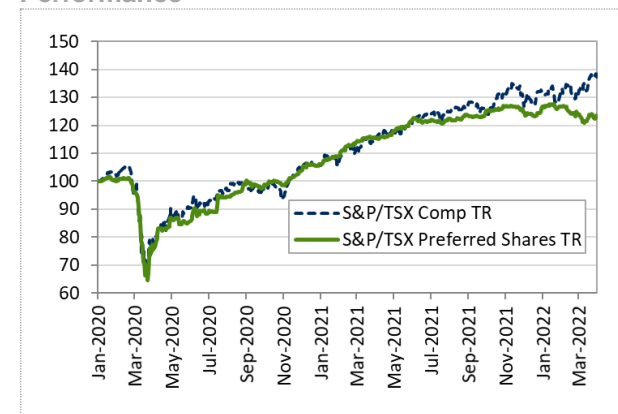
Markets can quickly change on a whim and what a difference a quarter can make. Over the past quarter, market risk sentiment turned sour with fears of sustained inflation, the coronavirus Omicron variant, central bank hawkishness, and finally, the Russian invasion of Ukraine.

Faced with persistent inflation and increasing hawkishness by central bankers, we have seen treasury yields spike up considerably in the first quarter of 2022. As seen in the chart in the lower right, yield curves have also flattened out significantly. Some parts of the yield curve have even inverted slightly.

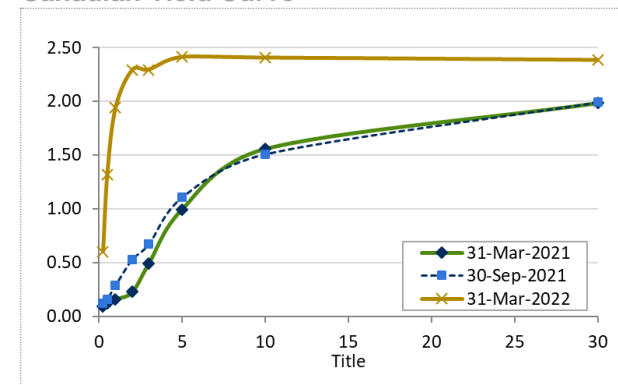
The Canadian preferred share (pref) market was not spared from this volatility, but the impact was relatively limited as the ongoing pref redemptions provided a welcome tailwind to preferred shares. The S&P/TSX Preferred Shares Total Return Index came in at -2.5% in the first quarter of 2022, compared to -7% return of the FTSE Canada Bond Universe. Overall redemptions have continued to trend in the Canadian pref market in 2022, but it could slow down given rising interest rates.

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Investment Specialist, Fixed Income

Performance



Canadian Yield Curve



Source: FactSet, Raymond James Ltd.

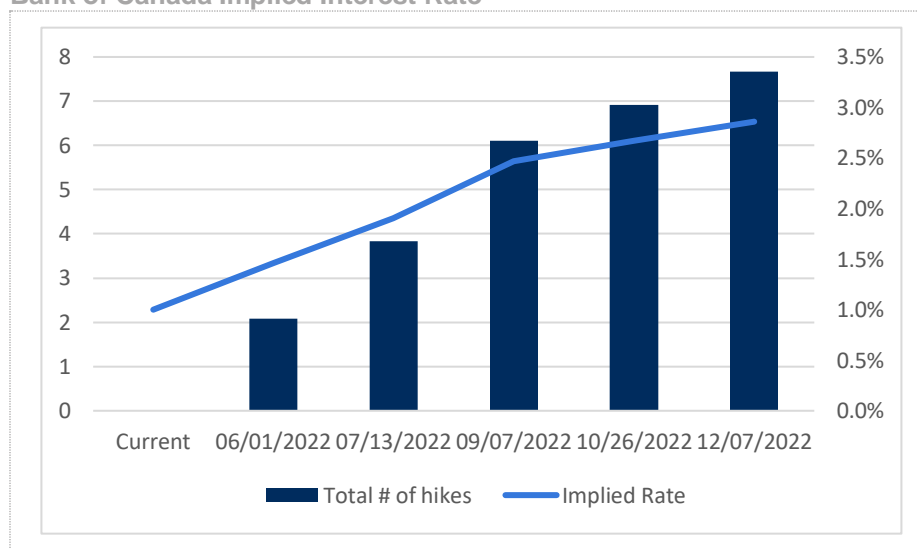
Please read domestic and foreign disclosure/risk information beginning on page 11.

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Interest Rate Outlook

Over the past quarter, Canadian economic activity has been on strong footing as many provinces ended or relaxed their COVID-19 restrictions. The Canadian economy grew at a robust rate of 3.5% in the first quarter of 2022. The latest reading of inflation (March CPI) showed that annual inflation grew by 6.7% in March, a full percentage point higher than February’s and highest level since January 1991. Bank of Canada governor Tiff Macklem expects inflation to remain elevated, forecasting 4.5% for 2022, largely due to the Russia/Ukraine events.

Bank of Canada Implied Interest Rate



Source: Morningstar, FactSet, Raymond James Ltd. As of April 26, 2022.

As inflation runs hot in Canada and the western world, the Bank of Canada (BoC) has finally begun hiking interest rates over the past quarter. First with a 25 bps increase on March 2, followed by an aggressive 50 bps (its biggest single rate hike since May 2000) increase on April 13. Typically, the rate hikes would be in 25 bps intervals. The overnight interest rate is now sitting at 1 per cent. In addition, the central bank said they would start QT (quantitative tightening) and stop purchasing government bonds. Governor Tiff Macklem said he expects rates to return to what they consider being “neutral” of 2 to 3 percent.

The bond market is now expecting a more aggressive BoC in an attempt to control the runaway inflation that we are facing. The Federal Reserve is also expected to aggressively increase interest rates, given that Federal Reserve Chair Jerome Powell said a 50 bps rate hike is now on the table. At the next BoC meeting in June, the BoC is forecast to increase the overnight interest rate by 50 bps, with some economists even predicting a 75 bps increase. As of April 26, the market has priced in at least seven rate hikes by the end of the year and implying an overnight rate reaching 2.80%.

Redemptions

March was a busy month for the pref market, with almost \$2.2 billion in redemptions in the month alone. Approximately \$3.5 billion in prefs have been redeemed this year so far, with another \$1.75 billion having been announced for redemption by the end of May. Looking further, an additional \$2 billion worth of preferred shares have a call feature in the month of June, but only a small portion of that is expected to be redeemed due to the steep discount they are trading to their par value.

A few prefs were redeemed in the past quarter that were of note. BEP.PR.E shares were redeemed on January 31 for \$25.25, for a premium of \$0.25 rather than waiting a few months to redeem at par or \$25.00. The redemption of RY.PR.P in February 24 was also noteworthy because Royal Bank called their shares at \$25.75, rather than waiting 3 years for the par or \$25 price. This must’ve caught a few investors off guard as RY.PR.P was trading close to \$26.65 per share when the news broke. This development reinforces our opinion that it is important to pay more attention to the risk of early redemptions. In addition, investors need to pay close attention to the yield to call on the prefs that they own (or are looking to purchase).

Announced redemptions

Issuer	Series	Symbol	Redemption date	Amt (mln)	Reset Spread
Brookfield Renewable Partners	11	BEP.PR.K	4/30/2022	\$250	+382bps
Bank of Montreal	40	BMO.PR.C	5/25/2022	\$500	+333bps
TC Energy Corp	15	TRP.PR.K	5/31/2022	\$1000	+385bps
Total				\$1,750	

Source: Company Reports, Factset, Raymond James Ltd

Fund Flows

After strong net inflows of \$1.39 billion into the pref ETF and mutual fund space in 2021, we have seen aggregate negative net flows to start the year. It could be profit taking following a very strong 2021 or a change in risk sentiment due to the ongoing geopolitical tensions. Regardless of the reason, outflows are a new headwind that investors should know.

New Issues

So far in 2022, we have seen little supply in the pref space. TD Bank issued \$850 million for institutional investors, the second ever institutional preferred share issue. Institutional preferred shares are closer to LRCNs rather than the traditional pref shares available to retail investors. The shares have \$1,000 par value, instead of \$25 with minimum purchase size of \$200,000, and pay dividends semi-annually instead of quarterly. In addition, the institutional prefs are not listed on any stock exchange, but trade over-the-counter in the bond market instead. The TD issue pays a generous 5.75% dividend yield.

In addition to the TD pref, we have seen three other separate pref issues. It is a good change of pace given relentless redemptions that we have been seeing since the introduction of LRCNs.

- Intact issued \$150 million series K perpetual prefs (IFC.PR.K) with a dividend rate of 5.25%.
- Partners Value Split issued \$150 million series 13 Split Corp pref (PVS.PR.K) with an annualized dividend yield of 4.45%.
- Brookfield Renewable Partners issued \$125 million series 18 perpetual prefs (BEP.PR.R) with an annualized dividend yield of 5.5%.

New Issues in 2022

Company Name	Series	Ticker	Type	Amt (mln)	Coupon
TD Bank Group	27		Institutional	\$850	5.75
Intact Financial	11	IFC.PR.K	Perpetual	\$150	5.25
Partners Value Split Corp	13	PVS.PR.K	Synthetic	\$150	4.4
Brookfield Renewable Partners	18	BEP.PR.R	Perpetual	\$125	5.5

Source: Company Reports, Factset, Raymond James Ltd.

Rate Resets

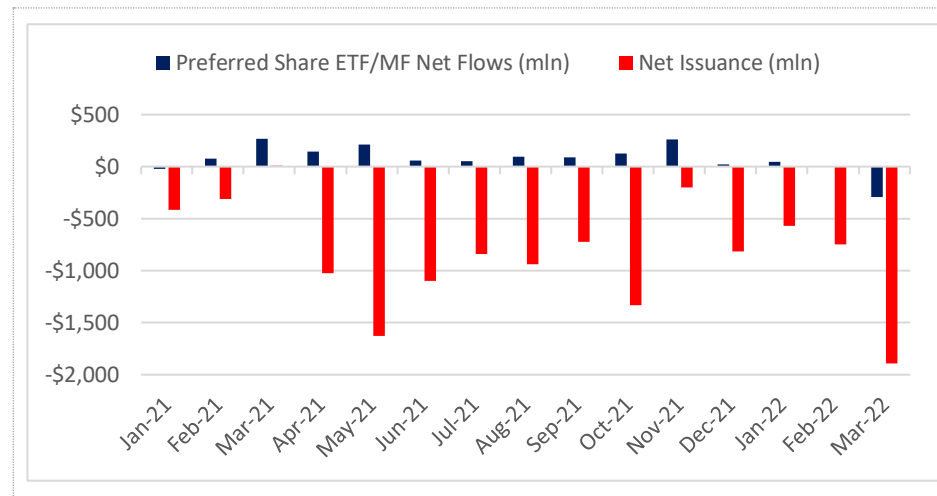
We have seen five prefs that have their rate reset be extended with a new rate in the month of March. Notably, all the fixed reset prefs have increased their fixed dividend, with an average increase of 38bps over the previous dividend rate. None of the resetting issues had sufficient interest in the floating rate option and each will remain completely fixed rate for the next five years. The lack of interest in the floating rate shares occurred despite the start of rate increases by the Bank of Canada.

Rate Resets

Company Name	Series	Ticker	Previous Div. Rate (%)	New Div. Rate (%)
Fairfax Financial Holdings	K	FFH.PR.K	4.671	5.045
Brookfield Asset Mgmt	26	BAM.PR.T	3.471	3.846
Brookfield Asset Mgmt	46	BAM.PF.I	4.800	5.386
Brookfield Office Properties	EE	BPO.PR.E	4.161	4.536
Brookfield Office Properties	P	BPO.PR.P	5.100	5.496

Source: Company Reports, Factset, Raymond James Ltd.

Preferred Share ETF/ Mutual Fund Flows Vs. Net Issuance



Source: Morningstar, FactSet, Raymond James Ltd.

Portfolio Positioning and Where to Look for Opportunities

As inflation runs hot and the economy is in a sound position, the BoC is expected to hike interest rates to combat the fastest pace of inflation last seen almost 40 years ago. We are now in a rising rate environment that has its own challenges for the pref space. However, as market rate expectations continue to be priced into the market, we have seen the 5 year GoC rate climb to 2.68%. As a majority of the Canadian pref market are still fixed-reset prefs (65%) that have a positive relationship with treasury yields, it is possible to take advantage of rising interest rates.

1. **Pay attention to changing market conditions:** Be mindful of market conditions and redemption announcements. In the table on the previous page, you can see issuers can issue prefs with coupons between 4.45% to 5.75% in the current market. This is a good baseline of what to expect from new issuance in the pref space and what to expect if the issuer was to call an outstanding issue.
2. **A shift in issuance type:** Despite changing market conditions, some issuers have still decided to keep redeeming their fixed-reset prefs. Instead of resetting their fixed reset prefs and waiting another 5 years for that call option to come again, we are also seeing some issuance of perpetual preferred shares.
3. **Ride interest rates higher:** Every 5 years, fixed reset prefs have their interest rate reset to the current market on Canadas plus a spread or they can be redeemed at its par value by the issuer. As the benchmark 5 year GoC rate increases and in general, in a rising rate environment, having a pref that has its rate reset would be advantageous. By selecting a fixed reset pref with a relatively lower reset spread (250 bps or lower) over the benchmark, the chance of redemption would be lower, therefore increasing the chance of remaining outstanding / have its rate adjusted higher.
4. **Consider the redemption features of the preferred:** Current coupon and current yield are important numbers to look at, but it is equally important to look at details/options attached to the security. As previously mentioned, security selection is of utmost importance when purchasing prefs.

5. **Upgrade credit quality when available:** Just as the world economy was getting a more stable footing and emerging out of the pandemic, we get a Russian invasion of Ukraine which has added to inflation concerns. The world is unpredictable and uncertainty can come from anywhere. As always, upgrading credit quality when available is a prudent move.

Please talk with your Financial Advisor about preferred shares and how they may fit in your portfolio.

Credit Rating Changes

Company Name	Date	Curr Rtg	Last Rtg
Artis Real Estate Investment Trust	04-Feb-2022	Pfd-3L	Pfd-3L *-

Source: DBRS, WR = Withdrawn Rating, NR = No rating has been requested. April 26, 2022.

PREFERRED SHARES ANALYSIS- Highlighted Issues

General Information			Rating	Price			Dividend		Possible Calls		
Issuer	Series	Symbol	DBRS	Par	26-Apr-2022	Current Yield	Annual	MMMM-DD	Date	Price	YTC
Fixed Reset											
ALGONQUIN PWR & UTILITY	D	AQN.PR.D	Pfd-3 *	\$25.00	\$22.45	5.67%	\$1.27	MJSD-31	31-Mar-2024	\$25.00	10.64
BANK OF MONTREAL	44	BMO.PR.E	Pfd-2	\$25.00	\$23.30	5.20%	\$1.21	FMAN-25	25-Nov-2023	\$25.00	10.42
BCE INC	T	BCE.PR.T	Pfd-3	\$25.00	\$21.05	5.93%	\$1.25	FMAN-1	01-Nov-2026	\$25.00	9.90
BROOKFIELD ASSET MAN INC	34	BAM.PF.B	Pfd-2L	\$25.00	\$20.00	5.55%	\$1.11	MJSD-31	31-Mar-2024	\$25.00	15.17
CANADIAN IMPERIAL BANK	39	CM.PR.O	Pfd-2	\$25.00	\$20.23	4.59%	\$0.93	JAJO-31	31-Jul-2024	\$25.00	13.21
MANULIFE FINANCIAL CORP	25	MFC.PR.Q	Pfd-2H	\$25.00	\$22.34	5.26%	\$1.18	MJSD-19	19-Jun-2023	\$25.00	16.20
NATIONAL BANK OF CANADA	42	NA.PR.G	Pfd-2L	\$25.00	\$23.39	5.29%	\$1.24	FMAN-15	15-Nov-2023	\$25.00	10.87
TORONTO-DOMINION BANK	20	TD.PF.K	Pfd-2H	\$25.00	\$22.51	5.28%	\$1.19	MJSD-31	31-Oct-2023	\$25.00	10.86
Perpetuals											
BROOKFIELD ASSET MAN INC	37	BAM.PF.D	Pfd-2L	\$25.00	\$20.22	6.06%	\$1.23	MJSD-30	30-May-2022	\$25.25	239.58
CANADIAN UTILITIES LTD	HH	CU.PR.J	Pfd-2H	\$25.00	\$20.31	5.85%	\$1.19	MJSD-1	01-Mar-2027	\$26.00	10.22
GREAT-WEST LIFECO INC	G	GWO.PR.G	Pfd-2H	\$25.00	\$22.01	5.91%	\$1.30	MJSD-31	31-May-2022	\$25.00	158.93
POWER CORPORATION CANADA	G	POW.PR.G	Pfd-2	\$25.00	\$23.70	5.91%	\$1.40	JAJO-15	30-May-2022	\$25.00	72.29
Floating											
FAIRFAX FINL HLDGS LTD	D	FFH.PR.D	Pfd-3H	\$25.00	\$21.30	3.80%	\$0.81	MJSD-31	31-Dec-2024	\$25.00	11.82
BCE INC	AE	BCE.PR.E	Pfd-3	\$25.00	\$18.65	4.00%	\$0.75	monthly-12	13-Jun-2022	\$25.50	341.41
Synthetic											
PREMIUM INCOME CORP	A	PIC.PR.A	NR	\$15.00	\$14.76	5.84%	\$0.86	JAJO-31	01-Nov-2024	\$15.00	N/A
Retracatable											
CANOE EIT INCOME FUND	2	EIT.PR.B	Pfd-2H	\$25.00	\$25.57	4.69%	\$1.20	MJSD-15	15-Mar-2023	\$25.75	6.31
US Dollar											
ENBRIDGE INC	1	ENB.PR.V	Pfd-3H	\$25.00	\$22.24	6.69%	\$1.49	MJSD-1	01-Jun-2023	\$25.00	17.38
ENBRIDGE INC	5	ENB.PF.V	Pfd-3H	\$25.00	\$20.99	6.40%	\$1.34	MJSD-1	01-Mar-2024	\$25.00	16.57
TOTAL											

General Information			
Issuer	Series	Symbol	Notes
Fixed Reset			
ALGONQUIN PWR & UTILITY	D	AQN.PR.D	5yr GoC +3.28%
BANK OF MONTREAL	44	BMO.PR.E	5yr GoC +2.68%
BCE INC	T	BCE.PR.T	≥80% of 5yr GoC
BROOKFIELD ASSET MAN INC	34	BAM.PF.B	5yr GoC +2.63%
CANADIAN IMPERIAL BANK	39	CM.PR.O	5yr GoC +2.32%
MANULIFE FINANCIAL CORP	25	MFC.PR.Q	5yr GoC +2.55%
NATIONAL BANK OF CANADA	42	NA.PR.G	5yr GoC +2.77%
TORONTO-DOMINION BANK	20	TD.PF.K	5yr GoC +2.59%
Perpetuals			
BROOKFIELD ASSET MAN INC	37	BAM.PF.D	
CANADIAN UTILITIES LTD	HH	CU.PR.J	
GREAT-WEST LIFECO INC	G	GWO.PR.G	
POWER CORPORATION CANADA	G	POW.PR.G	
Floating			
FAIRFAX FINL HLDGS LTD	D	FFH.PR.D	3-Mo T-Bill + 3.15
BCE INC	AE	BCE.PR.E	≥50% of Prime, but Prime Max, floats monthly, redeemable anytime for \$25.50
Synthetic			
PREMIUM INCOME CORP	A	PIC.PR.A	
Retracatable			
CANOE EIT INCOME FUND	2	EIT.PR.B	
US Dollar			
ENBRIDGE INC	1	ENB.PR.V	US 5-yr + 3.14%
ENBRIDGE INC	5	ENB.PF.V	US 5-yr + 2.82%
TOTAL			

Most Actively Traded

Trading volume data as at April 26, 2022. 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	AE	BCE.PR.E	11,707	8,762
BCE INC	AJ	BCE.PR.J	11,110	755
THOMSON REUTERS CORP	B	TRI.PR.B	11,038	61,700
BROOKFIELD ASSET MAN INC	2	BAM.PR.B	7,432	5,057
BOMBARDIER INC	B	BBD.PR.B	6,779	5,010
TC ENERGY CORP	2	TRP.PR.F	6,222	6,730
BCE INC	AD	BCE.PR.D	6,118	8,360
BCE INC	Y	BCE.PR.Y	5,830	6,500
BROOKFIELD ASSET MGMT	13	BAM.PR.K	4,953	3,412
BCE INC	AH	BCE.PR.H	4,713	12,455

Retractable

Issuer	Series	Symbol	30-Day	5-Day
CANADIAN GENL INVESTMENT	4	CGI.PR.D	1,286	900
CANOE EIT INCOME FUND	1	EIT.PR.A	1,032	1,720
BROOKFIELD INVESTMENTS	A	BRN.PR.A	857	801
CANOE EIT INCOME FUND	2	EIT.PR.B	548	1,350
BIRCHCLIFF ENERGY LTD	C	BIR.PR.C	373	800

Perpetual

Issuer	Series	Symbol	30-Day	5-Day
CANADIAN UTILITIES LTD	HH	CU.PR.J	30,970	13,084
BROOKFIELD PROP PFD LP		BPYPM	20,958	21,933
GREAT-WEST LIFECO INC	Y	GWO.PR.Y	17,656	18,756
GREAT-WEST LIFECO INC	S	GWO.PR.S	13,234	4,058
GREAT-WEST LIFECO INC	G	GWO.PR.G	11,618	16,612
MANULIFE FINANCIAL CORP	3	MFC.PR.C	10,677	15,023
SUN LIFE FINANCIAL INC	4	SLF.PR.D	9,344	16,681
GREAT-WEST LIFECO INC	T	GWO.PR.T	9,331	8,185
SUN LIFE FINANCIAL INC	3	SLF.PR.C	9,054	7,958
GEORGE WESTON LTD	IV	WN.PR.D	8,636	18,108

Fixed-Reset

Issuer	Series	Symbol	30-Day	5-Day
TC ENERGY CORP	15	TRP.PR.K	75,493	120,756
ENBRIDGE INC	D	ENB.PR.D	51,930	57,919
ENBRIDGE INC	F	ENB.PR.F	48,486	9,615
ENBRIDGE INC	11	ENB.PF.C	37,130	8,959
BANK OF MONTREAL	40	BMO.PR.C	35,962	52,525
ENBRIDGE INC	P	ENB.PR.P	29,515	136,150
ENBRIDGE INC	7	ENB.PR.J	27,679	10,331
CANADIAN IMPERIAL BANK	45	CM.PR.R	27,537	17,436
ENBRIDGE INC	B	ENB.PR.B	27,195	30,902
ENBRIDGE INC	N	ENB.PR.N	27,172	12,603

Appendix A: Yield Tables

Yields tables are included as a separate report/attachment, and are also available 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 backed 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 that 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 Shares vs Common Shares

- Like most common shares, these are equity instruments that 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

Preferred Shares 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, and there is 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 affect 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. 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 the 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 period before the retraction occurs.

2. Payment Provision

- Fixed Rate preferreds have a fixed dividend at issue date, which 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
- Fixed Resets pay a fixed dividend rate for a specified period, usually for five years after their date of issue. On or 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 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.

Some other types of preferred shares have characteristics that are quite different from conventional preferred shares:

- 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, and 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 associated with 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 following table 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 years or carry 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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