Canadian Preferred Shares Report

PRIVATE CLIENT SOLUTIONS

January 26, 2018

Fixed Income Group

A Good Finish to a Great Year…Now What

It was a great 2017 for Canadian preferred shares, with a total return of 13.6%. This compared to the S&P/TSX Composite TR at 9.1% and the FTSE/TMX Canada Universe Bond TR at 2.52%. In particular, fixed-resets, which make up approximately two thirds of the market and whose prices are correlated to yields, performed well with the help of two rate hikes by the Bank of Canada (BoC).

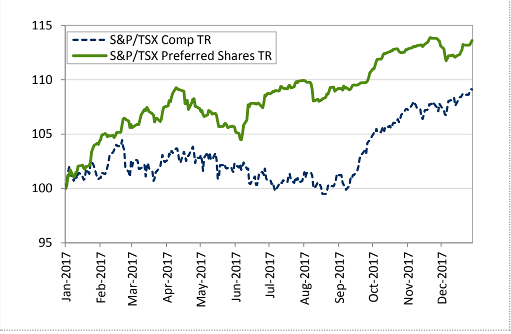
We are not expecting a repeat of 2017 this year, but we anticipate that it will be a decent one for preferred shares. The main drivers for 2018 will be:

1. **Rate hikes to continue**: Higher yields, in particular the Government of Canada 5-year yield, are good for fixed-reset preferreds.
2. **Lack of new issue product**: Banks, which are normally the main issuers of preferred shares are finding other investment vehicles to fulfill their Tier 1 Capital requirements. With the lack of new issues, the demand for current issues will rise.
3. **Continued demand (appetite) from ETFs**: These will help provide liquidity and offer other ways to buy preferred shares with a diversified approach.

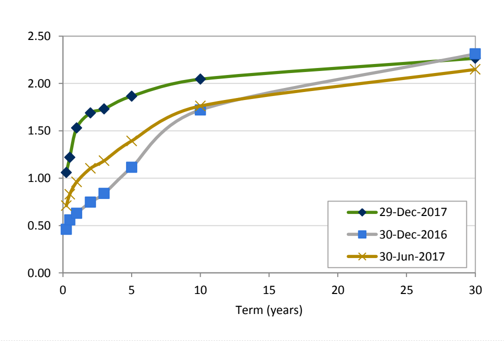
We continue to recommend using preferred shares in addition to a laddered bond portfolio and other fixed income instruments to enhance yield and we suggest remaining overweight fixed-reset vs perpetuals due to future rate hike expectations.

Phil Kwon
Fixed Income

A Great 2017 for Preferred Shares



Canadian Yield Curve



Source: Bloomberg, Raymond James Ltd.

Inside this Report

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

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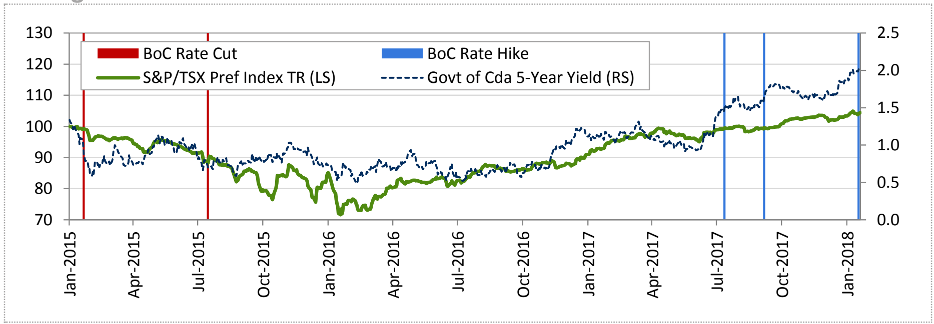
RAYMOND JAMES

2017: The Great Year That Was

Canadian preferred shares performed very well in 2017 returning 13.6% with the help of two rate hikes in the second half of the year. Fixed-resets, which make up nearly two thirds of the pref market, were the best performers. This is not surprising as we saw the Government of Canada 5-year yield (which the dividends of fixed-resets are benchmarked off) skyrocket from 1.11% at the beginning of 2017 to 1.87% by year end. We also saw new issue flow become stagnant after the summer. creating higher demand for current issues. Reset spreads of new issues continued to tighten as yields climbed and existing fixed-resets trading at a discount with lower reset spreads reacted positively. As spreads tighten, the probability of lower reset preferreds getting called goes higher. This in turn will move the prices closer to its call price, which for a discounted pref, would be higher.

Rising Rates: Good for Fixed-Reset Preferreds



Source: Bloomberg, Raymond James Ltd.

2018: Now What?

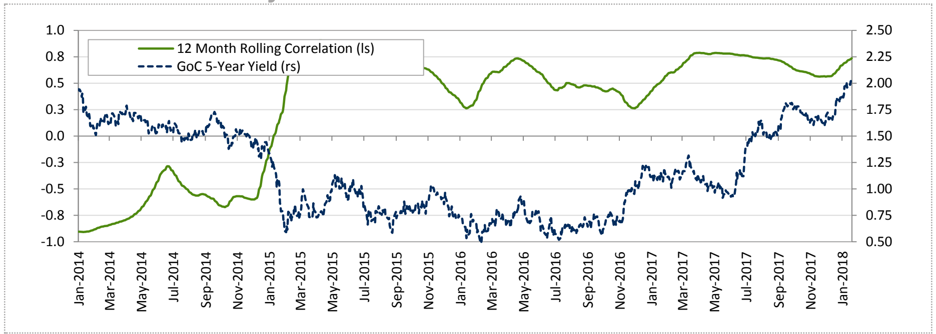
Preferred shares investors will be happy to know that the same drivers that helped propel the market to double digit returns in 2017 will continue into 2018. However, we are not expecting the same magnitude of returns mainly because we believe that these drivers may have been already been priced in to most issues.

- **Rate Hikes to Continue**

In 2017, not only did the BoC have their first rate hike since late 2010, but they had two of them nearly back to back. For 2018, there has already been another hike at the first BoC meeting of the year to 1.25%, the highest level since the financial crisis. The statement cited a string of positive data points including an economy that's running flat out, good job growth and the lowest unemployment rate since 1976. However, underlying dovish tones were prevalent with the threat that NAFTA's demise could significantly slow down the economy. Housing and consumer debt levels in a rising rate environment were also topics weighing on sentiment. Despite this, the International Monetary Fund (IMF) raised its estimate for economic growth in Canada stating that US tax cuts are expected to help boost global economic growth. The IMF is now projecting Canada's economy to grow at 2.3% this year (previously 2.1%) and 2.0% in 2019 (previously 1.7%). Currently, the interest rate markets are forecasting another rate hike by year end.

With three hikes within the past seven months and a softer outlook, we are not expecting the GoC 5-year yield to make another dramatic move higher this year, but more of a gradual steady climb. Higher yields are positive for fixed-reset preferreds.

Pref Market Positively Correlated with the GoC 5-Year Yield



Source: Bloomberg, Raymond James Ltd.

- **Lack of new issue product**:

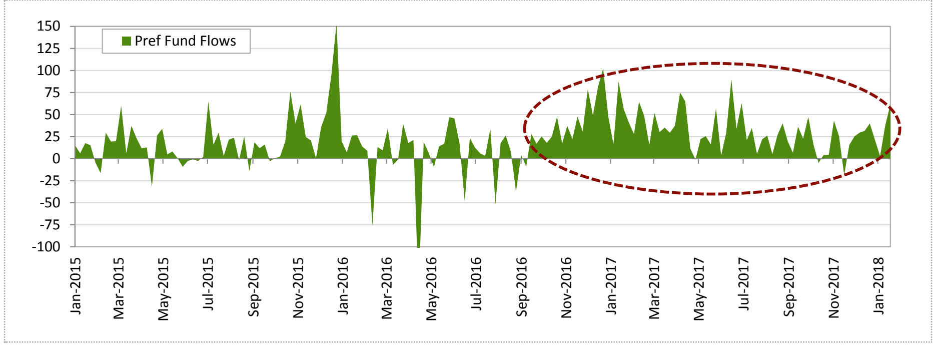
Banks, which are one the main issuers of preferred shares, introduced an alternative tier 1 (AT1) capital investment vehicle in October 2017 to fulfill their Tier 1 capital requirements. These hybrid securities have similar characteristics to preferred shares, are legally debt, and help avoid a tax on passive income for non-Canadian residents, which means they can be sold outside Canada. We do not expect that AT1s will turn off the bank pref new issue tap, but expect a flow decrease. We saw this in the final quarter of 2017. However, with the GoC 5-year yield currently hovering near 2%, there have been a couple of banks issuing in the past couple of weeks taking advantage of the tightening reset spreads. Also, with only a small number of non-NVCC (non-viable contingent capital) bank prefs left to be called, banks will now issue more strategically and not to the magnitude in number and size we saw in early 2016.

Though these bank new issues, which are coveted by retail and institutional investors, have slowed down, there is a silver lining. The lack of bank new issues has opened the door for more non-financial issuers to come to market, as well as created good demand of current issues due to lack of supply.

- **Continued involvement from ETFs and Mutual Funds**

Despite the dramatic move in yields over the past year, yields are still near historic lows. Preferred shares have become very popular due to their higher yields for fund managers, in particular those that focus on income. There are also many actively managed preferred share ETFs which have emerged giving an alternative to the passively managed iShares S&P/TSX Canadian Preferred Shares ETF (CPD-T) and more expensive (from a fee perspective) mutual funds. Fund flows into preferred shares ETFs were positive in 2017 and we expect it to continue into 2018. Also, after the horrible 2015 for preferred shares, many investors now use a diversified approach rather than individual security selection. All this new involvement from institutions have helped provide liquidity in what has historically been a retail centric product.

Funds Flows in Pref ETFs to Continue in 2018



Source: Bloomberg, Raymond James Ltd.

Conclusion: Portfolio Positioning

As yields rose throughout 2017 and spreads tightened, the probability of fixed-resets being called drastically increased leading to double-digit returns. Even though 2017 was a great year for preferreds, there is still some value left in the market for 2018. With a lot of issues now trading near par or at a premium, security selection will be critical. Below are some guidelines on how to position a preferred share portfolio.

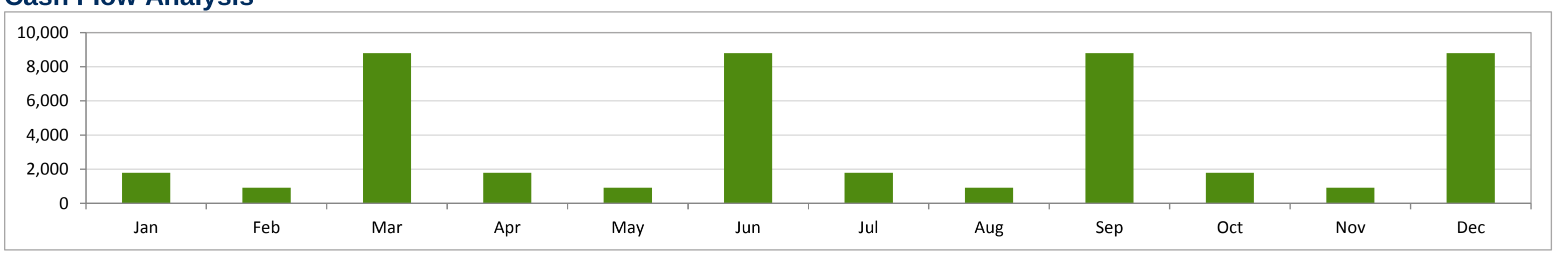
- ***Overweight fixed-resets, underweight perpetuals***: Rising rates are not good for interest-rate sensitive perpetuals, but better for fixed-reset whose dividends are reset off a benchmark yield. Higher yields lead to higher dividends.
- ***Underweight high-reset preferreds***: Most high reset preferreds are now trading at premiums due to the high likelihood of being called at their next reset date. Despite paying a nice dividend, you may encounter a capital loss (if purchased at premiums) if they do get called making the total return mediocre.
- ***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 dividends were being reduced, we are now in an environment where dividends will likely go higher for fixed-resets.
- ***Increase weighting of lower reset preferreds***: As higher reset prefs are called, ones with lower reset spreads become more attractive in a rising rate environment. This is because when new issue reset spreads are tightening, the potential for these discounted issues to get called move higher. As the probability of a fixed-reset preferred share being called increases, the call date becomes more like a maturity date. It is this increase in predictability which was one of the main drivers of price increases in 2017 for fixed-reset preferreds. The returns came more from price appreciation as opposed to dividends, which preferreds are usually known for. Keep in mind that from an issuer perspective, they want to issue at the lowest reset spread possible and call in those issues with high reset spreads.

Highlights: Sample Portfolio

General Information			Rating	Pricing			Dividend		Possible Calls					
Issuer	Series	Symbol	DBRS	Par	Last	urrent Yiel	Annual	MMMM-DD	Date	Price	YTC	Shares	Value	Weight
Fixed Reset														**78.6%**
BCE INC	AQ	BCE.PR.Q	Pfd-3	$25.00	$24.38	4.36%	$1.06	MJSD-31	30-Sep-2018	$25.00	8.67	3,700	$90,206	9.0%
BROOKFIELD ASSET MAN INC	30	BAM.PR.Z	Pfd-2L	$25.00	$24.84	4.72%	$1.17	MJSD-31	31-Dec-2022	$25.00	4.87	3,700	$91,908	9.2%
BROOKFIELD OFFICE PROP	N	BPO.PR.N	Pfd-3	$25.00	$21.48	4.40%	$0.95	MJSD-31	30-Jun-2021	$25.00	8.73	3,700	$79,476	7.9%
ENBRIDGE INC	N	ENB.PR.N	Pfd-3H	$25.00	$21.74	4.60%	$1.00	MJSD-1	01-Dec-2018	$25.00	22.16	3,700	$80,438	8.0%
FAIRFAX FINL HLDGS LTD	K	FFH.PR.K	Pfd-3H	$25.00	$24.20	4.83%	$1.17	MJSD-31	31-Mar-2022	$25.00	5.62	3,700	$89,540	8.9%
MANULIFE FINANCIAL CORP	9	MFC.PR.I	Pfd-2	$25.00	$25.21	4.31%	$1.09	MJSD-19	19-Sep-2022	$25.00	4.35	3,700	$93,277	9.3%
NATIONAL BANK OF CANADA	30	NA.PR.S	Pfd-2L	$25.00	$23.64	4.34%	$1.03	MJSD-15	15-May-2019	$25.00	8.06	3,700	$87,468	8.7%
TORONTO-DOMINION BANK	5	TD.PF.C	Pfd-2	$25.00	$23.53	3.98%	$0.94	JAJO-31	31-Jan-2020	$25.00	6.80	3,700	$87,061	8.7%
TRANSCANADA CORP	7	TRP.PR.D	Pfd-2L	$25.00	$23.62	4.23%	$1.00	JAJO-30	30-Apr-2019	$25.00	8.63	3,700	$87,394	8.7%
Perpetuals														**21.4%**
INTACT FINANCIAL CORP	6	IFC.PR.F	Pfd-2	$25.00	$25.15	5.27%	$1.33	MJSD-31	30-Sep-2022	$26.00	6.02	2,800	$70,420	7.0%
POWER FINANCIAL CORP	R	PWF.PR.R	Pfd-2H	$25.00	$25.62	5.37%	$1.38	MJSD-1	26-Feb-2018	$26.00	26.51	2,800	$71,736	7.2%
ROYAL BANK OF CANADA	BJ	RY.PR.P	Pfd-2	$25.00	$25.68	5.11%	$1.31	FMAN-24	24-Feb-2021	$26.00	5.23	2,800	$71,904	7.2%
TOTAL						4.60%							$1,000,828	

General Information			Quarterly Income	Annual Income	
Issuer	Series	Symbol			
Fixed Reset					
BCE INC	AQ	BCE.PR.Q	$983	$3,931	5yr GoC +2.64%
BROOKFIELD ASSET MAN INC	30	BAM.PR.Z	$1,083	$4,334	5yr GoC +2.96%
BROOKFIELD OFFICE PROP	N	BPO.PR.N	$875	$3,498	5yr GoC +3.07%
ENBRIDGE INC	N	ENB.PR.N	$925	$3,700	5yr GoC +2.65%
FAIRFAX FINL HLDGS LTD	K	FFH.PR.K	$1,080	$4,321	5yr GoC +3.51%
MANULIFE FINANCIAL CORP	9	MFC.PR.I	$1,006	$4,025	5yr GoC +2.30%
NATIONAL BANK OF CANADA	30	NA.PR.S	$948	$3,793	5yr GoC +2.40%
TORONTO-DOMINION BANK	5	TD.PF.C	$867	$3,469	5yr GoC +2.25%
TRANSCANADA CORP	7	TRP.PR.D	$925	$3,700	5yr GoC +2.38%
Perpetuals					
INTACT FINANCIAL CORP	6	IFC.PR.F	$928	$3,710	Next par call is September 30, 2026 at $25.
POWER FINANCIAL CORP	R	PWF.PR.R	$963	$3,850	Next par call is April 30, 2021 at $25.
ROYAL BANK OF CANADA	BJ	RY.PR.P	$919	$3,675	Next par call is February 24, 2025 at $25.
TOTAL			$11,501	$46,005	

Cash Flow Analysis



Source: Bloomberg, Raymond James Ltd., Prices as at January 26, 2018.

Most Actively Traded

Trading volume data as at January 26, 2018. 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
BANK OF NOVA SCOTIA	21	BNS.PR.B	22,310	75,828
BCE INC	AB	BCE.PR.B	20,480	61,620
BCE INC	AE	BCE.PR.E	18,836	14,958
BCE INC	AD	BCE.PR.D	17,301	13,295
BANK OF NOVA SCOTIA	31	BNS.PR.D	16,598	24,265
THOMSON REUTERS CORP	B	TRI.PR.B	13,752	11,567
TORONTO-DOMINION BANK	T	TD.PR.T	12,933	26,714
SUN LIFE FINANCIAL INC	9QR	SLF.PR.J	12,274	40,877
BCE INC	Y	BCE.PR.Y	8,876	38,610
BCE INC	AH	BCE.PR.H	8,430	2,798

Retractable

Issuer	Series	Symbol	30-Day	5-Day
CANOE EIT INCOME FUND	1	EIT.PR.A	3,627	4,419
BIRCHCLIFF ENERGY LTD	C	BIR.PR.C	2,510	5,686
CANADIAN GENL INVESTMENT	4	CGI.PR.D	1,270	594
BROOKFIELD INVESTMENTS	A	BRN.PR.A	599	545

Perpetual

Issuer	Series	Symbol	30-Day	5-Day
POWER CORPORATION CANADA	G	POW.PR.G	13,749	66,541
POWER CORPORATION CANADA	C	POW.PR.C	11,002	46,298
GREAT-WEST LIFECO INC	T	GWO.PR.T	10,361	8,795
POWER FINANCIAL CORP	L	PWF.PR.L	9,595	47,611
BROOKFIELD ASSET MAN INC	36	BAM.PF.C	9,105	5,793
GREAT-WEST LIFECO INC	H	GWO.PR.H	8,299	5,003
BOMBARDIER INC	4	BBD.PR.C	7,800	8,160
BANK OF MONTREAL	35	BMO.PR.Z	6,972	3,875
INTACT FINANCIAL CORP	6	IFC.PR.F	6,947	20,051
GREAT-WEST LIFECO INC	P	GWO.PR.P	6,553	4,059

Fixed-Reset

Issuer	Series	Symbol	30-Day	5-Day
ENBRIDGE INC	19	ENB.PF.K	124,297	120,511
PEMBINA PIPELINE CORP	21	PPL.PF.A	84,296	49,234
ROYAL BANK OF CANADA	AJ	RY.PR.I	79,309	32,341
CANADIAN IMPERIAL BANK	45	CM.PR.R	55,841	17,684
ENBRIDGE INC	D	ENB.PR.D	51,852	67,309
ENBRIDGE INC	F	ENB.PR.F	50,636	9,918
TORONTO-DOMINION BANK	14	TD.PF.H	49,705	19,014
TRANSCANADA CORP	15	TRP.PR.K	44,493	80,752
ENBRIDGE INC	17	ENB.PF.I	41,584	133,139
TORONTO-DOMINION BANK	1	TD.PF.A	41,349	78,471

New Issues

Brookfield Office Properties, Series II

- **Symbol:** BPO.PR.I
- **Type:** Fixed-Reset, Cumulative
- **Issue:** $25.00 | 10.0 million shares | December 7, 2017
- **Rating:** Pfd-3 (DBRS)
- **Dividend:** 4.85% | MJSD-31
- **Notes:** Coupon is 4.85% until December 31, 2022, thereafter resets every 5 years @+3.23% over 5-year GoC bond yield. The minimum coupon is 4.85%.

Enbridge, Series 19

- **Symbol:** ENB.PF.K
- **Type:** Fixed-Reset, Cumulative
- **Issue:** $25.00 | 20.0 million shares | December 11, 2017
- **Rating:** Pfd-2L (DBRS)
- **Dividend:** 4.90% | MJSD-1
- **Notes:** Coupon is 4.90% until March 1, 2023, thereafter resets every 5 years @+3.17% over 5-year GoC bond yield. The minimum coupon is 4.90%.

Kinder Morgan Canada, Series 3

- **Symbol:** KML.PR.C
- **Type:** Fixed-Reset, Cumulative
- **Issue:** $25.00 | 10.0 million shares | December 11, 2017
- **Rating:** Pfd-3H (DBRS)
- **Dividend:** 5.20% | FMAN-15
- **Notes:** Coupon is 5.20% until Feb 15, 2023, thereafter resets every 5 years @+3.51% over 5-year GoC bond yield. The minimum coupon is 5.20%.

Pembina Pipeline, Series 21

- **Symbol:** PPL.PF.A
- **Type:** Fixed-Reset, Cumulative
- **Issue:** $25.00 | 12.0 million shares | December 7, 2017
- **Rating:** Pfd-3 (DBRS)
- **Dividend:** 4.90% | MJSD-1
- **Notes:** Coupon is 4.90% until May 1, 2023, thereafter resets every 5 years @+3.26% over 5-year GoC bond yield. The minimum coupon is 4.90%.

Credit Rating Changes

Company Name	Date	Agency	Curr Rtg	Last Rtg
Nova Scotia Power Inc	12/22/2017	DBRS	WR	Pfd-2L
Fairfax Financial Holdings Ltd	12/21/2017	DBRS	Pfd-3H	Pfd-3
Big Pharma Split Corp	11/24/2017	DBRS	Pfd-3H	
Brompton Lifeco Split Corp	10/19/2017	DBRS	Pfd-3L	Pfd-4H
RioCan REIT	10/02/2017	DBRS	WR	Pfd-3H
Veresen Inc	10/02/2017	DBRS	WR	Pfd-3 *-

Source: Bloomberg, WR = Withdrawn Rating, NR = No rating has been requested. December 31, 2017.

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) Pfd-1 Pfd-1 Pfd-1 (low) Pfd-1 (low)	P-1 (high) P-1 P-1 P-1 (low) P-1 (low)	AA AA- A+ A A-	**Superior:** High quality with minimal credit risk. Such a rating is back by strong earnings and balance sheet.
Pfd-2 (high) Pfd-2 Pfd-2 (low)	P-2 (high) P-2 P-2 (low)	BBB+ BBB BBB-	**Satisfactory:** Upper-medium grade and comes with moderate credit risk. There is substantial protection of dividend and principal.
Investment Grade Cut-Off			
Pfd-3 (high) Pfd-3 Pfd-3 (low)	P-3 (high) P-3 P-3 (low)	BB+ BB BB-	**Adequate:** Medium grade and comes with moderate credit risk. There may be speculative characteristics.
Pfd-4 (high) Pfd-4 Pfd-4 (low)	P-4 (high) P-4 P-4 (low)	B+ B 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-5 (high) Pfd-5 Pfd-5 (low) Pfd-5 (low) Pfd-5 (low) Pfd-5 (low) Pfd-5 (low)	P-5 (high) P-5 P-5 (low) CC C C C	CCC+ CCC CCC- CC C+ C C-	**Highly Speculative:** Very high credit risk due to chance of default. The protection of dividend and principal is uncertain.
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.