

Guide to
Preferred Shares

2014

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To see if investing in preferred shares is right for your situation and financial goals, talk to your ScotiaMcLeod advisor or visit www.scotiamcleod.com to locate a local ScotiaMcLeod advisor near you.

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Introduction

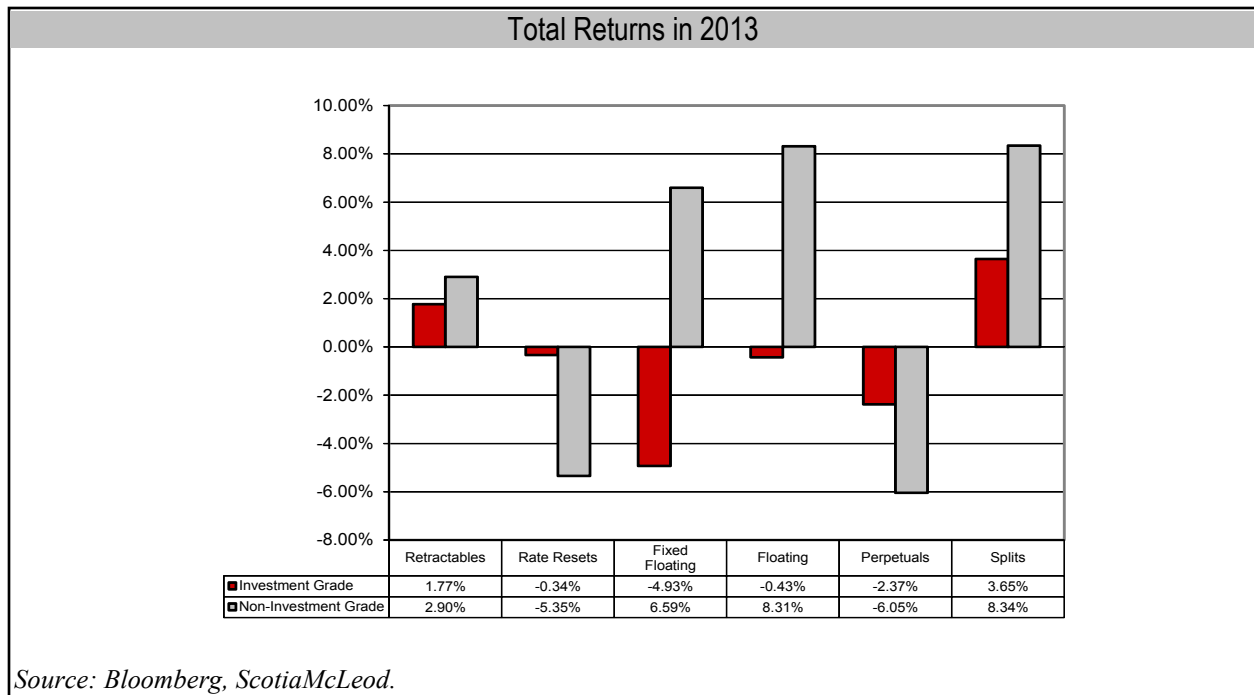
Market Overview

Weathering the Storm – How Preferred Shares Navigated 2013’s Choppy Waters

Preferred shares started 2013 on a strong note, but then reversed course and retreated with the first quarter being the only quarter delivering positive returns. The price volatility seen in the market this past year were very different from the past 4 years, as investors had become accustomed to the positive performance and price stability in their preferred share portfolios. As the U.S. Federal Reserve (Fed) prepared investors for the eventual tapering of its Quantitative Easing program - benchmark yields moved higher at a faster pace than most had anticipated as investors digested the incoming economic data. With higher underlying yields, the price of preferred shares fell, with the degree of price movement corresponding to the (1) type of preferred share (2) size of reset spread and (3) credit of the security. In an illiquid market such as the Canadian preferred share market, there were moments of panic selling, as investors were not able to stomach the price moves with the memories of 2008 still close at hand. Another player which affected the preferred share market this past year was the fund flows from various Exchange Traded Funds (ETF's).

Overall, the S&P/TSX Preferred Share Index declined by -7.16% on a price basis (not including dividend payments) in 2013 and -2.64% on a total return basis. In comparison, the corporate bond market (DEX Corporate Bond Index +0.84%) and the Canadian Equity Market (S&P/TSX Composite Index +12.99%) outperformed and provided investors with higher returns over the year versus preferred shares.

This past year it was the split shares and retractable preferred shares which outperformed the market. It was the two largest sectors of the market, rate resets and perpetuals, which delivered negative returns with more price volatility seen in the non-investment grade credit.



It is no surprise the split preferred shares outperformed the market and were the top performing type of preferred share last year. These securities are synthetic preferred shares that are based on an underlying portfolio of common shares. With the Equity market delivering double digits returns, these preferred shares were less affected than other types of preferred shares as interest rates climbed higher year-over-year.

Retractable preferred shares also gave investors a positive return over the year. This type of preferred share most closely resembles a corporate bond as there is a fixed maturity date. Having a maturity helps reduce the duration of the product and hence decrease its interest rate sensitivity. This type of preferred share only makes up 3.46% of the preferred share market, and was reduced in size as many companies redeemed their existing retractables throughout the year.

Non-bank fixed rate perpetual preferred shares have a long duration (no maturity date) and are the most interest rate sensitive type of preferred share. With the 30-year Government of Canada bond yield rising by +0.86% over the year, the price of these securities declined which explains why perpetuals were the worst performing type of preferred share in 2013. Due to the Basel III regulation changes, bank fixed rate perpetuals have become their own type of preferred share as these securities are expected to be redeemed prior to 2022 and are trading with a much lower duration than non-bank fixed rate perpetuals.

Rate reset preferred shares, make up the majority of the preferred share market and while the investment grade rate resets were on average flat over the year, the non-investment grade securities declined over the year. Rate resets were first issued in 2008, and 2013 marked the first reset date when issuers had the opportunity to redeem the securities or extend at a new dividend rate. As investors watched, Bank of Nova Scotia was the first to extend its Series 18 rate reset past the initial reset date. During the remainder of the year, 5 other rate resets were extended. Even though all of the securities that extended were investment grade securities, it affected the non-investment grade securities. The wider the reset spread the more likely an issuer will redeem the security on the first reset date. Once the first reset extended, investors started to pay closer attention to the size of the reset spread. Many rate resets, especially non-investment grade names, started to trade with a longer duration and were more sensitive to interest rate fluctuations due to the realization that these securities were unlikely to be redeemed at the first reset date.

Floating rate preferred shares pay investors a dividend based on short-term interest rates (90-day T-Bills or bank Prime). This type of preferred share performs well when short-term interest rates rise and on the expectation of rising rates in the future. While the floating rate sector was the top performing type of preferred share in the first quarter of 2013, this type of preferred share declined thereafter. The year started with a slew of positive economic data and investors purchased floating rate preferred shares for a hedge against rising rates in the future. Mid-year expectations changed and there were some changes in the language in the Bank of Canada statements. The latest Bank of Canada statement mentioned that, "the timing and direction of the next change to the policy will depend on how new information influences this balance of risks". This statement re-enforced the notion that a rate increase in Canada is not forecast for the near-term. Therefore the demand for floating rate preferred shares has waned and led to the decline in price in this type of security.

In 2014, there is large number of rate resets which can be redeemed or extended. The majority of these securities have a wide reset spread compared to current market conditions. Therefore, it is the expectation that approximately \$8.3 billion will be redeemed this year which is a much larger redemption schedule than previous years. The preferred share market is expected to continue to fluctuate based on supply/demand of product, ETF fund flows, as well as underlying interest rate movements and credit spreads.

Economic Forecast

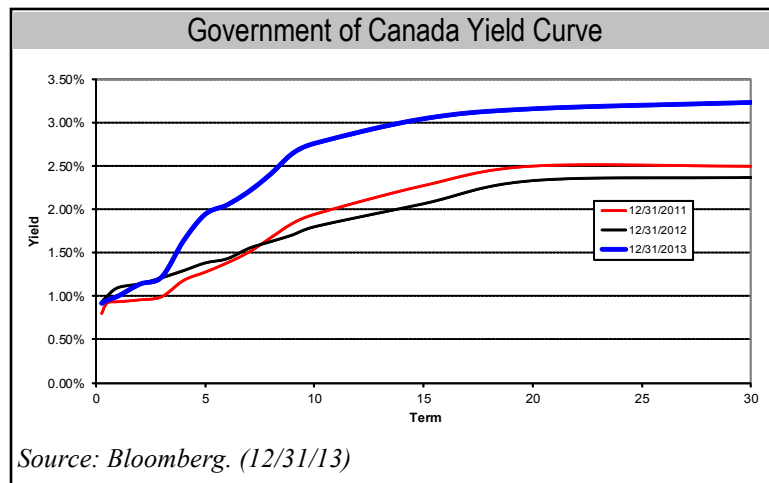
Scotia Economics believes that global economic activity is showing hopeful signs of building momentum. Worldwide output growth is forecast to increase 3.5% this year. It is thought that the U.S. economy should grow as stronger employment has pushed consumers back into spending mode. U.S. output growth is forecast to advance 2.7% in 2014 and 3.0% in 2015. Canada is expected to experience a pick up in growth this year benefitting from domestic demand and the improved U.S. market conditions. Canadian growth output is expected to advance 2.4% in 2014 and 2.5% in 2015. Inflation numbers have been weak and therefore it is expected that central banks keep short-term interest rates at current low levels well into 2015. The Bank of Canada overnight target rate is expected to remain on hold throughout 2014 and is not expected to be increased until the fourth quarter of 2015. The complete forecast for the Government of Canada yield curve can be seen in the table below. Essentially, we are anticipating a steeper yield curve with higher yields across the board and the Bank of Canada leaving the overnight rate at 1.00% throughout 2014. The one year forecast predicts yields to be higher by approximately +0.50% for maturities greater than 2-years, while Prime and 3- month T-bills are expected to be relatively unchanged.

Scotia Economics Interest Rate Forecast									
Canada	12/31/2013	14 Q1 f	14 Q2 f	14 Q3 f	14 Q4 f	15 Q1 f	15 Q2 f	15 Q3 f	15 Q4 f
BoC Overnight Target Rate	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%
Prime Rate	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
3-month T-bill	0.92%	0.90%	0.95%	1.00%	1.05%	1.10%	1.10%	1.20%	1.55%
2-year Canada	1.14%	1.05%	1.15%	1.35%	1.60%	1.80%	2.05%	2.30%	2.45%
5-year Canada	1.94%	1.90%	2.15%	2.35%	2.50%	2.70%	2.95%	3.10%	3.20%
10-year Canada	2.76%	2.80%	2.90%	3.05%	3.25%	3.40%	3.50%	3.65%	3.90%
30-year Canada	3.23%	3.30%	3.45%	3.60%	3.75%	3.90%	4.10%	4.25%	4.40%

Source: Scotiabank GBM. (12/31/13)

Interest Rate Movement

On a year-over-year basis, the Government of Canada yield curve steepened in shape as we saw yields move generally higher across the curve with larger moves seen in the longer dated securities. In the long-end of the curve (> 10-year maturities) yields moved higher by +0.83% – 0.98% as economic data improved and the Fed started to taper its Quantitative Easing. This move in the long-end was a negative contributor to the performance of both the straight perpetual preferred shares and long dated corporate bonds (-3.20%).



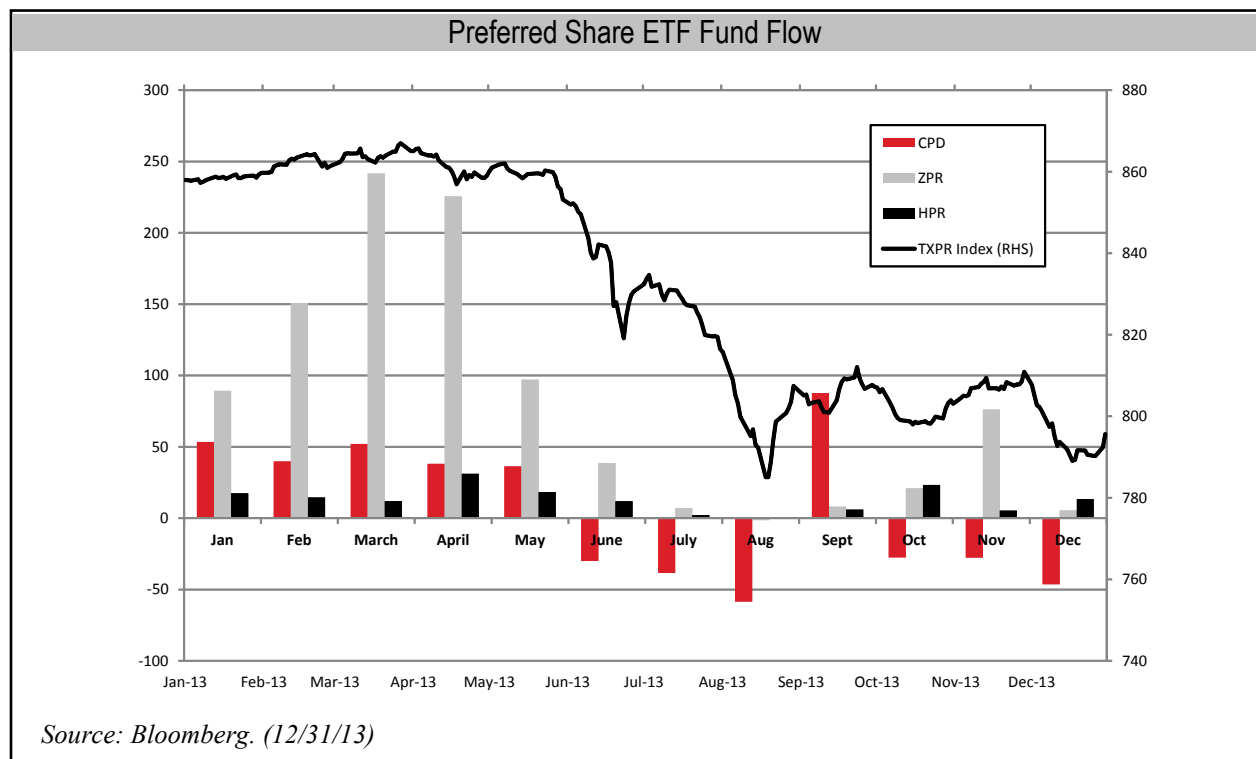
The 5-year Government of Canada bond yield moved higher by +0.56% while yields on 2-years and under moved lower by -0.10% as the market is not expecting overnight rates to increase in the next 12 months.

Preferred shares are interest rate sensitive products and as yields shifted higher year-over-year the price of preferred shares declined. Over the next year, the fate of interest rates will depend on the state of the global economy. With this in mind, the preferred share market is expected to continue to deliver a return in the form of dividend income with limited price appreciation.

Preferred Share ETF's

This past year the strength and weakness of the preferred share market correlated very closely to the various ETF flow that month. An illiquid market such as the preferred share market is influenced by large amounts of buying and selling as illustrated in the diagram below.

During the first 5 months of 2013, there was approximately \$1.1 billion of funds invested in preferred share ETF's. BMO's S&P/TSX Laddered Preferred ETF (ZPR) received 72% of the cash as this is a fairly new ETF which is based on a ladder of rate reset preferred shares. When funds are invested in ETF's the funds have to purchase the underlying basket of securities. With strong ETF sales, the underlying preferred shares were purchased in the market and the preferred share market, as indicated by the S&P/TSX Preferred Share Index was well supported on a price basis.



Following the back-up of yields mid-year, ETF redemptions began to take place and there was selling pressure on the individual underlying securities. As the price of the preferred share market dropped, additional selling and redemptions occurred which were also exasperated due to the limited bids and illiquidity during the summer months. September was a strong month for preferred share ETF's = positive performance for the Index, while the opposite held true in December as ETFs underwent net redemptions and the Index experienced negative price performance.

Looking ahead, it is expected that ETF fund flow will continue to influence the direction and price performance of the Canadian preferred share market.

Implications of Regulatory Changes (Basel III)

Following the financial crisis, regulators have created a new internal framework which is referred to as “Basel III”. Basel III includes new capital guidelines to help protect against any future economic or financial crisis. The new rules require institutions to meet minimum requirements to ensure all regulatory capital, and not just common equity, have mechanisms to absorb losses in the event the entity should become non-viable. These new requirements apply to banks, and have changed the criteria for Tier 1 Capital instruments (which includes preferred shares).

With respect to Basel III, in order to qualify as Tier 1 Capital on a bank's balance sheet a preferred share must include the following criteria:

1. Perpetual in nature with no incentive for the company to redeem;
2. Features that allows the regulators to force conversion into common shares based on a trigger event

If an instrument fits these criteria, it is now referred to as *Non-Viable Contingent Capital* (NVCC).

Trigger Event

Since the preferred shares can only be convertible into common shares in certain circumstances, OSFI has defined the following circumstances as constituting a "Trigger Event" (terms can be amended by OSFI from time to time).

1. OSFI announces that the Bank has or is about to stop being viable and the conversion of the contingent instruments is likely to restore the viability of the Bank.
2. The Bank accepts or has agreed to accept a capital injection or equivalent support from the federal or provincial Government, and without the injection the Bank would be considered non viable.

If a trigger event occurs, the preferred shares will be *automatically* converted into a number of common shares based on a pre-determined calculation.

Conversion Formula

The forced conversion of the preferred shares into common shares will be at the regulators (OSFI) discretion and NOT at the discretion of the investor or the Bank. There is the potential that each security will have a different conversion formula.

Due to these changes we have seen limited Canadian bank preferred share issuance since 2011. However, it is still expected that the banks will continue to use preferred shares as a form of financing. The new NVCC instruments will have a credit rating which is a notch below existing bank preferred shares to reflect the contingent conversion trigger provision.

The capital treatment of existing bank preferred shares (except CM.PR.D, E, G & possibly the RY.PR.W – would require OSFI approval) is being phased out over a 10-year period (2013 – 2022). Therefore, it is expected that by January 1, 2022 the banks will have redeemed the majority of their outstanding preferred shares.

Existing Bank Rate Resets (Non-NVCC): The higher the reset spread the higher the probability of the security being redeemed at the first reset date. Whether or not a bank redeems its rate reset at the reset date will depend on current market credit spreads as well as the company's Tier 1 Capital capacity. Based on current market conditions, credit spreads on a bank 5-year rate reset are approximately 1.85%. Therefore, those securities with a reset spread lower than 1.85% would be cheap financing for a company and have the potential of being extended. It is important to remember that credit spreads are a moving target and the redemption versus extension decision depends on the individual company's situation. It is anticipated that the majority of the upcoming 2014 bank rate resets will get redeemed due to the wide

reset spreads (> +3.00%). However, there will also likely be some issues extended to 2019 as it would be in the issuers best interest to extend and redeem a high dividend paying fixed perpetual structure instead. This extension would still be compliant with Basel III, as existing bank preferred shares are being phased out over a 10 year period.

Existing Bank Fixed Rate Perpetuals: (excluding CM.PR.D, E, G & RY.PR.W) It is expected that the issuer will redeem those securities with the highest dividend first and work to the lower dividend paying perpetuals as long as it still makes sense for the company to redeem the securities. In essence, each Canadian bank will play a balancing act to determine which securities are in their best interest to leave outstanding and which securities would be the most beneficial to redeem during each year of the phase-out period.

These regulatory changes will change the face of the preferred share market. Investors should become aware of their bank preferred share holdings and determine their capital eligibility. Additionally, watch for new issuance this year that will most likely be a rate-reset structure and include the new conversion to common stock feature in the prospectus.

Life Insurance Regulatory Framework

In 2013, the timeline for any change to the life insurance regulation were revised by OSFI. Previously, this framework was expected to be finalized in 2014 and implemented in 2015. However, the timeline has been delayed two years and the finalization of the rules is now expected in 2016 while implementation will be in 2018. OSFI noted that the new timeline will give the regulator and insurers more time to take into account the upcoming changes to domestic actuarial and international accounting standards on the regulatory framework. This extension was somewhat expected as OSFI is still focusing on banking regulations (Basel III) and the announcement did not affect the price of insurance preferred shares.

Rating Changes

There have been a number of credit rating and outlook changes over the past year with more downgrades than upgrades. In December, DBRS announced some rating changes on bank preferred shares following a change in rating criteria. In general, preferred shares are rated various notches below the issuer's intrinsic assessment. The criteria has been changed to a standard 3 notches as a starting point and wider notching could be used for individual banks or securities if deemed necessary. Bank of Montreal, Bank of Nova Scotia, CIBC (except CM.PR.D, E, G), Royal Bank of Canada and TD Bank preferred shares were downgraded to Pfd-2H from Pfd-1L. Additionally, Laurentian Bank preferred shares were upgraded to Pfd-3 from Pfd-3L. The market was little impacted following these rating changes.

Please refer to the tables below for all the rating changes and outlook changes throughout 2013.

Rating Changes in 2013							
Issuer	Symbol	Type	Rating Agency	Date Changed	New Rating	Old Rating	Current Outlook
5Banc Split Inc	FBS.PR.C	Split	DBRS	12-Apr-13	Pfd-2	Pfd-2L	
Algonquin Power	AQN.PR.A	Reset	S&P	11-Oct-13	P-3 (H)	P-3	Stable
Atlantic Power Preferred Equity Ltd	AZP.PR.B,A	Reset/Perp	DBRS	19-Aug-13	Pfd-5H	Pfd-4	Negative
Atlantic Power Preferred Equity Ltd	AZP.PR.B,A	Reset/Perp	S&P	3-Jul-13	P-5	P-4 (L)	Stable
Bank of Montreal	BMO.PR.	Various	DBRS	9-Dec-13	Pfd-2H	Pfd-1L	Stable
Bank of Nova Scotia	BNS.PR.	Various	DBRS	9-Dec-13	Pfd-2H	Pfd-1L	Stable
Bombardier Inc	BBD.PR.B,C,D	Various	DBRS	7-Nov-13	NR	Pfd-4L	Stable
Brompton Lifeco Split Corp	LCS.PR.A	Split	DBRS	23-Dec-13	Pfd-4H	Pfd-5H	
Brookfield Office Properties	BPO.PR.	Various	DBRS	5-Mar-13	Pfd-3	Pfd-3H	Stable
Canadian Imperial Bank of Commerce	CM.PR.K,L,M	Reset	DBRS	9-Dec-13	Pfd-2H	Pfd-1L	Stable
Canadian Imperial Bank of Commerce	CM.PR.D,E,F	Perpetual	DBRS	9-Dec-13	Pfd-2	Pfd-1L	Stable
Co-operators General Insurance	CCS.PR.C,D	Reset/Perp	S&P	17-Jun-13	P-2	P-2 (L)	Stable
First Asset CanBanc Split Corp	CBU.PR.A	Split	DBRS	6-Sep-13	Pfd-2H	Pfd-2L	
Innergex Renewable Energy Inc	INE.PR.C	Reset	DBRS	25-Mar-13	Pfd-4H	Pfd-3L	Stable
Laurentian Bank of Canada	LB.PR.E,F	Reset/Perp	DBRS	9-Dec-13	Pfd-3	Pfd-3L	Positive
Manulife Financial Corp	MFC.PR.	Various	S&P	22-May-13	P-2 (H)	P-2	Stable
Northland Power Inc	NPI.PR.A,C	Reset	S&P	28-Nov-13	P-3 (H)	P-3	Stable
R Split III Corp	RBS.PR.B	Split	DBRS	24-Sep-13	NR	Pfd-4L	
Rona Inc	RON.PR.A	Reset	S&P	12-Mar-13	P-4 (H)	P-3	Stable
Royal Bank of Canada	RY.PR.	Various	DBRS	9-Dec-13	Pfd-2H	Pfd-1L	Stable
Sunlife Financial	SLF.PR	Various	DBRS	28-Feb-13	Pfd-2H	Pfd-1L	Stable
Thompson Reuters Corp	TRI.PR.B	Floating	S&P	29-Oct-13	P-2 (L)	P-2	Stable
Toronto Dominion Bank	TD.PR.	Various	DBRS	9-Dec-13	Pfd-2H	Pfd-1L	Stable
Transcontinental Inc	TCL.PR.D	Reset	S&P	1-Mar-13	P-3 (H)	P-3	Stable
Westcoast Energy Inc	W.PR.H,J	Perpetual	S&P	4-Nov-13	P-2 (L)	P-3 (H)	Stable

Source: DBRS, Standard & Poors.

Outlook Changes in 2013							
Issuer	Symbol	Type	Rating Agency	Date Changed	Current Outlook	Old Outlook	Rating
Atlantic Power Preferred Equity Ltd	AZP.PR.B,A	Reset/Perp	DBRS	19-Aug-13	Negative	Stable	Pfd-5H
Bombardier Inc	BBD.PR.B,C,D	Various	S&P	12-Aug-13	Negative	Stable	P-4
Brookfield Asset Management	BAM.PR.	Various	DBRS	5-Mar-13	Negative	Stable	Pfd-2L
Brookfield Office Properties	BPO.PR.	Various	S&P	4-Oct-13	Credit Watch		P-3
Capstone Infrastructure	CSE.PR.A	Reset	S&P	29-May-13	Positive	Stable	P-4 (H)
Emera	EMA.PR.	Reset/Perp	DBRS	28-Aug-13	Credit Watch		Pfd-3H
Fortis Inc	FTS.PR.	Various	S&P	11-Dec-13	Credit Watch		P-2
Rona Inc	RON.PR.A	Reset	DBRS	12-Mar-13	Stable	Negative	Pfd-4 (H)

Source: DBRS, Standard & Poors.

New Issuance

Total preferred share new issuance was approximately \$5.78 billion during 2013 which was a 38% decrease in issuance compared to the extremely active new issue preferred share market experienced in 2012. Non-financial issuers continued to contribute to the majority of the issuance as they used the preferred share market as a means of financing, contributing to approximately 82% of the new issuance throughout the year. Over the past couple of years, non-financial issuance has increased as illustrated in the graph on the following page. Issuance by financial institutions totalled only \$975 million, which is much lower than compared with the last 10 years. With respect to credit quality, 68% of the issuance in 2013 was considered investment grade while 32% was non-investment grade.

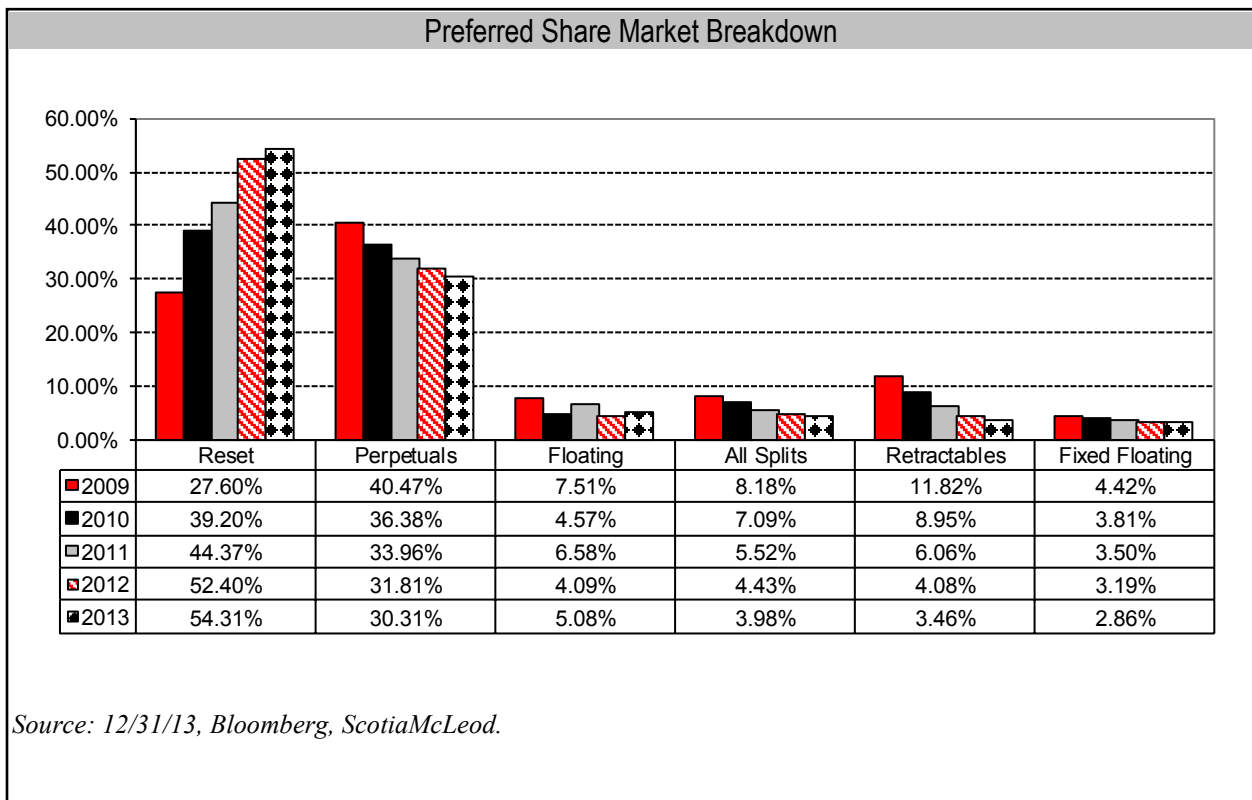
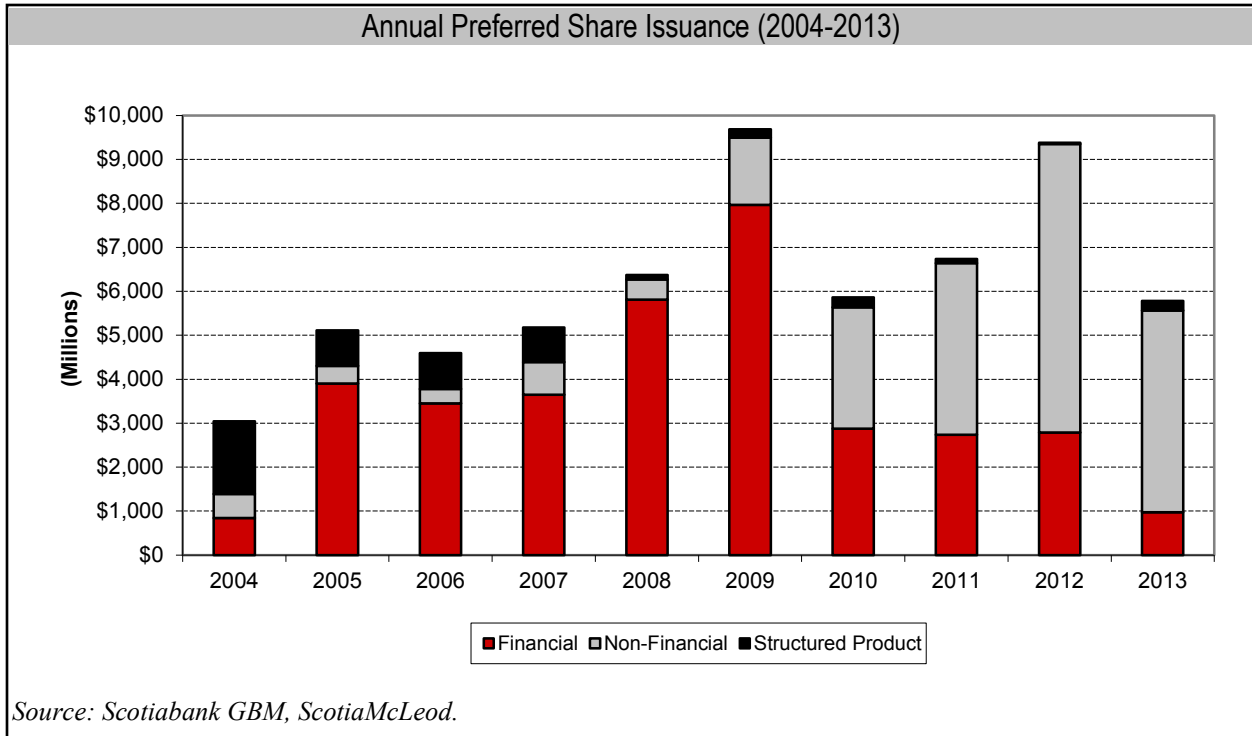
The rate reset perpetual preferred shares continue to be the most popular type of issue and represented 70% of the new issue market in 2013. Among these new issues the average reset spread is Government of Canada bond yield + 2.71%. However, we did see 7 new fixed rate perpetual issues making up 24% of the issuance seen over the year. All of the fixed rate perpetuals were issued before June, and ahead of the moves in long-dated interest rates.

Enbridge Inc. was the most active issuer last year as they issued 3 rate reset preferred shares totalling \$1.2 billion. There was no bank issuance this past due to the regulatory changes (Basel III) and banks now have to issue a preferred share which has a feature allowing for the conversion into commons shares in certain circumstances.

Rate reset perpetual preferred shares which only originated in 2008, now contribute to more than half (54.3%) of the Canadian preferred share market. Fixed rate perpetuals which 5-years ago accounted for 40% of the market now only make up 30.3% of the Canadian preferred share market. The floating rate sector increased in size over the year, as new floating rate securities were issued following the conversion of bank rate resets which were extended past the initial reset date. The floating rate sector will likely continue to grow in size as additional securities are created following rate reset extensions. The complete breakdown of the types of preferred shares within the market can be seen in the graph on the following page.

Overall, demand for new issue rate reset perpetual preferred shares was very dependant on the name of the issuer and the reset spread offered. There was also quite a few split corporations which grew in size by offering additional preferred and capital shares throughout the year. Pembina Pipeline Corp. joined game, by issuing its first preferred shares this past year. The remaining issuers which used preferred shares as a form of financing this past year had existing preferred shares outstanding.

Looking forward, the new issue market in 2014 is expected to remain active with non-financial issuers continuing to use the preferred share market as a means of financing. Additionally, a new NVCC instrument is more than likely to be issued to replace those bank rate resets which are expected to be redeemed.



Preferred Share Issuance in 2013												
Issue	Symbol	Credit		Type	Listing Date	Size (\$M)	Issue Price	Type of Distribution	Dividend/ Distribution	Issue Yield	Reset Rate	
		DBRS	S&P									
Brookfield Renewable Power Ser 5	BRF.PRE	Pfd-3H	P-3H	Perpetual	29-Jan-13	\$175	\$25.00	Dividend	\$1.25	5.00%	N/A	
Bell Aliant Preferred Equity Ser E	BAF.PRE	Pfd-3	P-3H	Rate-Reset	14-Feb-13	\$230	\$25.00	Dividend	\$1.06	4.25%	5-yr CAN + 2.64%	
Power Financial Corp Series S	PWF.PRS	Pfd-1L	P-1L	Perpetual	28-Feb-13	\$300	\$25.00	Dividend	\$1.20	4.80%	N/A	
TransCanada Corp Series 7	TRP.PRD	Pfd-2L	P-2	Rate-Reset	4-Mar-13	\$600	\$25.00	Dividend	\$1.00	4.00%	5-yr CAN + 2.38%	
Capital Power Corp. Series 5	CPX.PRE	Pfd-3L	P-3	Rate-Reset	14-Mar-13	\$200	\$25.00	Dividend	\$1.125	4.50%	5-yr CAN + 3.15%	
Canadian Utilities Ltd. Series CC	CJ.PRF	Pfd-2H	P-2H	Perpetual	19-Mar-13	\$175	\$25.00	Dividend	\$1.125	4.50%		
Artis REIT Series E	AX.PRE	Pfd-3L	N/A	Rate-Reset	21-Mar-13	\$100	\$25.00	Income/ROC	\$1.188	4.75%	5-yr CAN + 3.30%	
Enbridge Inc. Series 1	ENB.PRV	Pfd-2L	P-2	Rate-Reset	27-Mar-13	\$400	\$25.00	Dividend	\$1.000	4.00%	5-yr US + 3.14%	
Brookfield Renewable Power Series 6	BRF.PRF	Pfd-3H	P-3H	Perpetual	23-Apr-13	\$175	\$25.00	Dividend	\$1.250	5.00%		
CDN General Investment Series 4	CGI.PRD	Pfd-1L	N/A	Retractable	29-Apr-13	\$75	\$25.00	Dividend	\$0.938	3.75%		
Canadian Utilities Series DD	CJ.PRG	Pfd-2H	P-2H	Perpetual	30-Apr-13	\$225	\$25.00	Dividend	\$1.125	4.50%		
Birchcliff Energy Series C	BIR.PRC	N/A	N/A	Retractable	30-Apr-13	\$50	\$25.00	Dividend	\$1.750	7.00%		
Brookfield Asset Management Ser. 37	BAM.PFD	Pfd-2L	P-2	Perpetual	28-May-13	\$200	\$25.00	Dividend	\$1.225	4.90%		
Enbridge Series 3	ENB.PRY	Pfd-2L	P-2	Rate-Reset	28-May-13	\$600	\$25.00	Dividend	\$1.000	4.00%	5-yr CAN + 2.38%	
Emera Series E	EMA.PRE	Pfd-3H	P-2L	Perpetual	30-May-13	\$125	\$25.00	Dividend	\$1.125	4.50%		
Manulife Corp. Series 13	MFC.PRK	Pfd-2H	P-2H	Rate-Reset	17-Jun-13	\$200	\$25.00	Dividend	\$0.950	3.80%	5-yr CAN + 2.22%	
Fortis Inc. Series K	FTS.PRK	Pfd-2L	P-2	Rate-Reset	9-Jul-13	\$250	\$25.00	Dividend	\$1.000	4.00%	5-yr CAN + 2.05%	
Pembina Pipeline Series 1	PFL.PRA	Pfd-3	P-3	Rate-Reset	17-Jul-13	\$250	\$25.00	Dividend	\$1.063	4.25%	5-yr CAN + 2.47%	
Artis REIT Series G	AX.PRG	Pfd-3L	N/A	Rate-Reset	18-Jul-13	\$80	\$25.00	Income/ROC	\$1.250	5.00%	5-yr CAN + 3.13%	
Enbridge Inc. Series 5	ENB.PFV	Pfd-2L	P-2	Rate-Reset	27-Sep-13	\$200	\$25.00	Dividend	\$1.100	4.40%	5-yr US + 2.82%	
Pembina Pipeline Series 1	PFL.PRC	Pfd-3	P-3H	Rate-Reset	2-Oct-13	\$150	\$25.00	Dividend	\$1.175	4.70%	5-yr CAN + 2.60%	
Veresen Inc.	VSN.PRC	Pfd-3H	P-3H	Rate-Reset	21-Oct-13	\$150	\$25.00	Dividend	\$1.250	5.00%	5-yr CAN + 3.01%	
Power Financial Corp Series T	PWF.PRT	Pfd-1L	P-1L	Rate-Reset	11-Dec-13	\$200	\$25.00	Dividend	\$1.050	4.20%	5-yr CAN + 2.37%	
Enbridge Inc. Series 7	ENB.PRJ	Pfd-2L	P-2	Rate-Reset	12-Dec-13	\$250	\$25.00	Dividend	\$1.100	4.40%	5-yr CAN + 2.57%	
Altogas Ltd Ser E	ALA.PRE	Pfd-3	P-3H	Rate-Reset	13-Dec-13	\$200	\$25.00	Dividend	\$1.250	5.00%	5-yr CAN + 3.17%	
						\$5,560			Average	4.57%	5-yr CAN + 2.71%	
Global Champions Split	GCS.PRA	Pfd-2L	N/A	Split	7-Mar-13	\$50	\$25.00	Dividend	\$1.00	4.00%		
Albanc Split Corp	ABK.PRC	Pfd-2L	N/A	Split	10-Mar-13	\$37	\$31.64	Dividend	\$1.266	4.00%		
Dividend 15 Split Corp	DFN.PRA	Pfd-3	N/A	Split	9-Oct-13	\$19	\$10.00	Dividend	\$0.525	5.25%		
Financial 15 Split Corp	FTN.PRA	Pfd-4H	N/A	Split	31-Oct-13	\$16	\$10.00	Dividend	\$0.525	5.25%		
Dividend 15 Split Corp II	DF.PRA	Pfd-3L	N/A	Split	3-Dec-13	\$18	\$10.00	Dividend	\$0.525	5.25%		
Dividend Growth Split Corp	DGS.PRA	Pfd-3	N/A	Split	30-Oct-13	\$35	\$10.07	Dividend	\$0.525	5.13%		
Life & Banc Split Corp	LBS.PRA	Pfd-3L	N/A	Split	3-Dec-13	\$33	\$10.09	Dividend	\$0.475	4.70%		
Big 8 Split Inc	BIG.PRD	Pfd-2L	N/A	Split	31-Dec-13	\$17	\$10.00	Dividend	\$0.450	4.50%		
						\$5,784						

Source: Bloomberg, ScotiaMcLeod.

Preferred Shares Redeemed and New Issues (Annually)				
Year	Redemptions	New Issues	Difference	
2004	\$4,914,862,381	\$3,040,919,193	-\$1,873,943,188	
2005	\$3,426,809,260	\$5,198,672,525	\$1,771,863,265	
2006	\$2,429,103,077	\$4,639,959,734	\$2,210,856,657	
2007	\$3,019,845,298	\$4,990,931,691	\$1,971,086,393	
2008	\$997,562,364	\$6,490,810,594	\$5,493,248,230	
2009	\$1,164,855,822	\$9,683,344,111	\$8,518,488,289	
2010	\$1,758,879,452	\$5,812,308,503	\$4,053,429,051	
2011	\$2,112,857,525	\$6,737,271,800	\$4,624,414,275	
2012	\$2,481,183,599	\$9,377,450,733	\$6,896,267,134	
2013	\$2,548,056,613	\$5,784,199,176	\$3,236,142,563	
TOTAL '04-'13	\$24,854,015,391	\$61,755,868,059	\$36,901,852,668	
Average	\$2,485,401,539	\$6,175,586,806		

Source: ScotiaMcLeod.

Investing in Preferred Shares

Advantages

- Tax Advantaged Investment Income.** The main reason to invest in preferred shares is for investment income. Preferred shares may pay higher dividends than common shares and dividend income provided to investors is treated favorably from a tax perspective relative to other forms of income. Therefore, preferred shares are often able to offer a better after-tax yield than bonds of similar credit quality and risk.

Dividends received by Canadian residents from Canadian corporations are taxed at a lower rate than interest income due to the dividend tax credit, which recognizes that a dividend is paid from the after-tax earnings of the corporation. Using the most recent proposed 2014 Ontario tax rates, an investor in the \$136,240- \$514,090 income tax bracket pays 46.41% tax on interest income and 29.52% on dividend income. Hence, the lower tax rate applied to dividends provides a significant advantage. After tax, an investor would retain \$70.48 from \$100.00 in dividends, but only \$53.59 from interest income. Therefore, an investor would need approximately \$1.31 ($\$70.48/\53.59) of interest income to equal \$1.00 of dividend income before taxes are paid. This difference in the amount of income required before taxes is described as a “pre-tax interest equivalent” amount. This can be calculated by multiplying the amount of dividend income by a factor (1.31 in the case of Ontario) that takes into account the different tax rates for dividends and interest. A table of pre-tax interest equivalent multipliers for each province can be found in Appendix II.

- Security of Principal.** Greater security of principal may also motivate investors to invest in preferred shares as they rank above the interests of common shareholders, both in their seniority to receive dividend payments and their higher ranking in the distribution of assets if a company is liquidated. However, preferred shares rank below all other forms of debt.
- Priority of Dividends.** Preferred shares’ dividend payments can also be “cumulative”, which means that dividends accrue to the holder of the preferred share if the issuer misses a payment. The issuer must pay the missed dividend before any dividends are paid on common shares. Additionally, in order for an issuer to suspend the dividend payment on the preferred shares they must first suspend all dividend payments for the common shareholders.
- Exchange Traded Markets.** Unlike bonds, preferred shares trade on public exchanges where the bid and ask prices are visible to all market participants. This is an advantage for investors as it provides greater transparency in pricing.

Risks

The risks of investing in preferred shares include interest rate risk, credit risk, call/extension risk, liquidity risk, and the risk of tax law changes that may impact the tax advantaged status of dividend income.

- Interest Rate Risk.** Preferred shares are income investments that are impacted by changes in the level of interest rates. There is an inverse relationship between interest rates and the price of preferred shares - i.e. as interest rates rise, prices fall. The amount of the price change due to a change in interest rates is related to both the term to redemption and the dividend rate. In general, the longer the term, and the lower the dividend rate, the greater the interest rate risk. Investors in term preferred shares (i.e. those with a fixed maturity date) will lock in a rate of return upon the purchase of a preferred share but will be subject to reinvestment risk on dividends earned and principal repayment. Investors in straight perpetual preferred shares are exposed to a greater degree of interest rate risk due to the fact that these preferred shares lack a maturity date and are structured to pay a fixed dividend in perpetuity to the holder.

- **Credit Risk.** Credit risk involves any change in the creditworthiness of the preferred share issuer. The creditworthiness of an issuer refers to its general financial strength, including its ability to pay dividends and repay principal on maturity. The credit quality of preferred shares in Canada is monitored by two independent credit rating agencies: Dominion Bond Rating Service (DBRS), and Standard & Poor's (S&P). Investors can consult these two agencies to assess the credit risk of investing in the preferred shares of an individual company. Credit risk is also apparent in credit spreads (yield pick-up over Government of Canada bonds). Preferred shares which have a longer term (perpetuals) will be impacted to a greater extent by credit spreads than those which have a short term to redemption. Credit spreads have the same impact as interest rates - i.e. widening credit spreads, increases yield, and depressed the price of preferred shares.
- **Call Risk.** Many preferred shares have a redemption feature built in where the issuer can redeem all or part of the issue. This is a disadvantage to the investor as the redemption will only occur if it is advantageous for the issuer. Preferred share redemptions typically occur in a declining rate environment when it is cost effective for the issuer to redeem a preferred share which has a high dividend rate. However, factors such as refinancing options of the issuer, size of the issue, regulatory changes and current market conditions also impact the issuers' decision to redeem outstanding preferred shares.
- **Extension Risk.** Although preferred share which lack a maturity date have an initial call date the issuer has ability to keep the security outstanding in the market and continuing paying the dividend. Holders should not expect a security to be redeemed at an upcoming call date as redemption versus extension will depend on the company's individual situation and financing needs.
- **Liquidity Risk.** This risk arises from the difficulty of selling preferred shares in the secondary market due to the lack of liquidity relative to most bonds and common equity. Liquidity risk can be measured by size of the spread between the bid and the offer price - i.e. wider spreads increase the risk.
- **Tax Risk.** One of the attractive features of preferred shares is the lower rate of tax applied to dividend income compared to interest income. The relative attractiveness of this feature depends on the investors' marginal tax bracket and their province of residence. Changes to provincial or federal tax rates may affect the attractiveness of preferred shares relative to fixed income investments. In general, for investors in lower tax brackets, dividend income becomes less attractive relative to interest income (on an after-tax basis).

Incorporating Preferred Shares Within a Portfolio

Preferred shares can differ dramatically depending on their structure, yield, term, and credit quality. When incorporating preferred shares into a portfolio an investor needs to consider a number of factors in order to determine whether a particular preferred share is an appropriate investment. Using the guidelines set out in an Investment Policy Statement is a perfect starting point as it spells out an investor's investment philosophy, asset allocation targets, and expected results.

Return Objectives. It is important to consider the return requirement that the investor is anticipating, when purchasing fixed income products. An investor must also evaluate the various income products available and choose a product which generates an adequate return for the investor. There are two components of investment return from a preferred share: dividend income and capital gains (or losses). The current yield of a preferred share is calculated by dividing the dividend by the purchase price. However, simply looking at current yield can be misleading as it does not account for the accrued dividends or any potential capital gains or losses. If the investor is purchasing the preferred share at a discount (or premium) to its par value, then there is a capital gain (or loss) that if included in the yield calculation gives a more precise return estimate. The most accurate measure of yield for preferred shares is the bond equivalent yield, which provides an all-in rate of return based on purchase price, dividend payments, lower tax rates on dividend income, and the redemption value. The bond equivalent yield is then compared to bonds of similar term to provide a gauge of relative value. The greater the difference (spread) between the preferred share yield and the yield on Government of Canada bonds of similar term, the greater the incentive for the investor to purchase preferred share rather than Government paper.

Risk Tolerance. In order for an investor to achieve their required return, the risk inherent in purchasing a preferred share must also be assessed. Credit ratings are often used to gauge the issuers' ability to consistently pay dividends and repay principal. Preferred share credit ratings vary from P-1 (highest quality) to P-5 (lowest quality). Preferred shares are considered "investment grade" if they are rated P-2 (low) or higher. Conservative investors may wish to limit their preferred share investments to investment grade preferred shares. More risk tolerant preferred share investors may consider non-investment grade preferred shares to take advantage of higher yields provided they are fully aware of the greater risk.

Investor Constraints:

- **Time Horizon** - Given that most investors consider preferred shares for current income, the length of time a preferred share will be outstanding in the market and paying dividends is an important consideration. If the investor has a definitive time horizon, retractables and split shares should be the preferred shares of choice as these have a maturity date and investors can predict their cash flows accordingly. Additionally, the advantage of shorter maturities is that they exhibit less sensitivity to fluctuations in interest rates. The disadvantage is that they require more frequent reinvestment of principal. For investors who are comfortable lending their money indefinitely there are various types of perpetual preferred shares which offer investors an income stream without a definitive maturity date. Straight perpetual preferred shares pay a fixed dividend and have no maturity date. Rate reset/fixed-floating and floating rate preferred shares have a readjustment mechanism that adjusts the dividend rate periodically.
- **Liquidity Needs** – Determining whether the investor has ongoing liquidity needs will also influence the choices for preferred shares within a portfolio. Generally speaking, the preferred share market is less liquid than the common share market as issues are smaller in size and there are fewer investors. Therefore, if the investor may have upcoming liquidity needs it is recommended focusing on issues which have more than five million shares outstanding or two million shares outstanding in the split share space. However, each issue should be scrutinized over liquidity as it may change depending on market conditions. In addition, preferred shares which have a set retraction/maturity date may be more suitable for investors with future liquidity needs.

- **Tax Considerations** – An individual's tax rates must also be evaluated since the dividend income usually offers a beneficial tax treatment compared to interest income. The tax rates depend on investors' marginal tax bracket and their province of residence.

Diversification Principles

A diversified investment portfolio serves as a prerequisite to help limit risks and mitigate potential losses for investors. To properly diversify a portfolio, academic studies on the equity market have proven that holding 20 different securities provides an optimal level of diversification, although a diversification of at least 10 securities is considered ample. Therefore, in most cases, investors should avoid having an exposure of more than 10% in a single name within a preferred share portfolio.

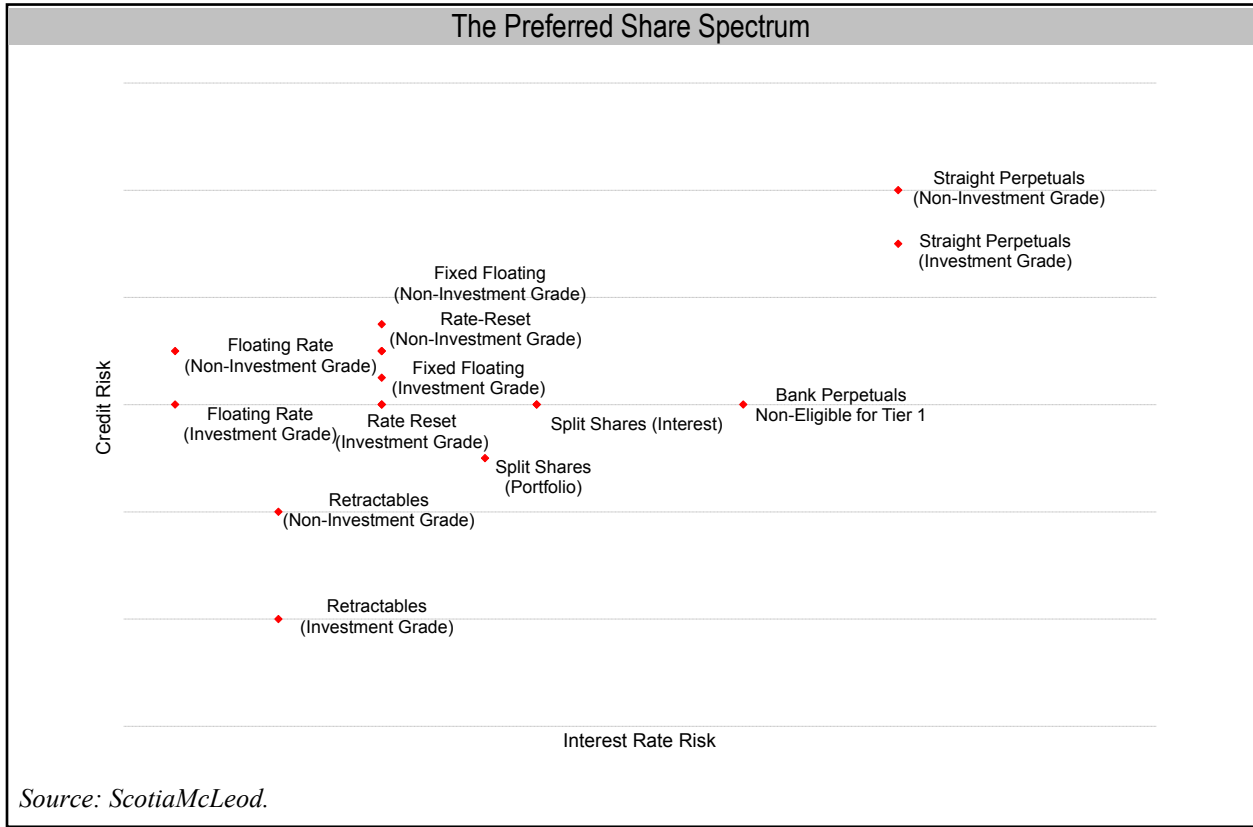
Further studies have proven that with lower credit quality, a greater level of diversification is required to further mitigate the greater risks of default. An allocation to any security or issuer based on credit quality is further predicated upon an investor's risk tolerance.

Other diversification principles to consider when constructing a conservative, preferred share portfolio include:

- Within the fixed-income portion of a portfolio, preferred shares should comprise approximately 20%, and no more than 50%, of the total fixed income portion of a portfolio.
- Exposure to fixed rate perpetual preferred shares should be limited to 10% of a portfolio for a conservative investor and no more than 35% of a portfolio for an aggressive investor.

The Range of Preferred Shares

Preferred shares vary depending on credit risk as well as interest rate risk. The chart below identifies the various types of preferred shares and their ranking with respect to interest rate risk and credit risk.



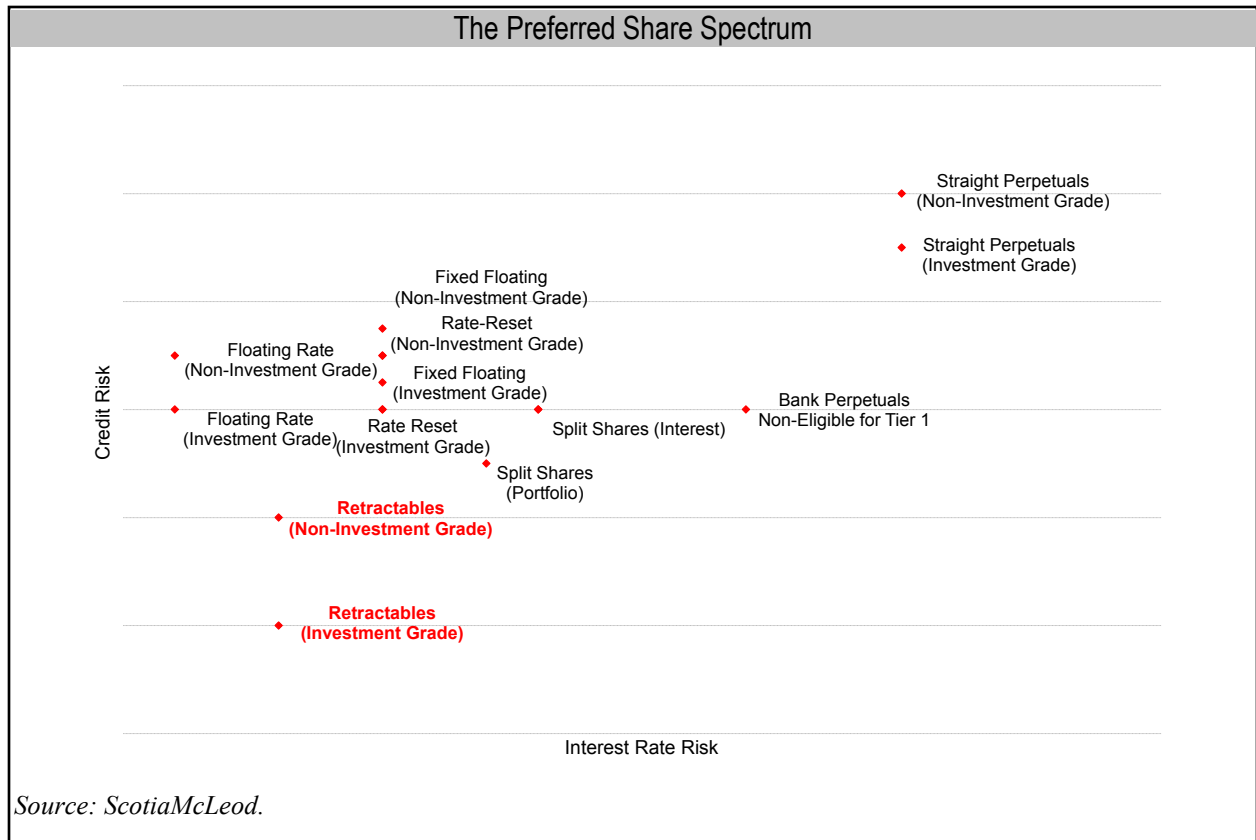
Credit Ratings

Since credit risk is a key characteristic when investing in preferred shares it is important to understand how the various credit ratings compare to bond ratings. The term “investment grade” refers to a preferred share issued by a company with strong credit quality and stable earnings that would be comparable to a bond rated ‘BBB-’ or higher. Investment grade preferred shares are designated a rating of P-1 or P-2 by major credit rating agencies such as Dominion Bond Rating Service (DBRS) or Standard & Poor’s (S&P). Companies with preferred credit ratings in the P-3(H) category or lower are considered “non-investment” grade by virtue of their weaker balance sheets and potentially volatile earnings. Non-investment grade preferred shares compare to bonds rated ‘BB+’ or lower by credit rating agencies. The table on the following page lists the various credit ratings and the equivalent bond rating.

Preferred Share Credit Ratings			
S&P Global Preferred Share Scale	S&P Preferred Share Scale	DBRS Preferred Share Scale	Quality
AA	P-1 (High)	Pfd-1 (high)	Superior
AA-	P-1	Pfd-1	
A+	P-1	Pfd-1	
A	P-1 (Low)	Pfd-1 (Low)	
A-	P-1 (Low)	Pfd-1 (Low)	
BBB+	P-2 (High)	Pfd-2 (High)	Satisfactory
BBB	P-2	Pfd-2	
BBB-	P-2 (Low)	Pfd-2 (Low)	
BB+	P-3 (High)	Pfd-3 (High)	Adequate
BB	P-3	Pfd-3	
BB-	P-3 (Low)	Pfd-3 (low)	
B+	P-4 (High)	Pfd-4 (High)	Speculative
B	P-4	Pfd-4	
B-	P-4 (Low)	Pfd-4 (Low)	
CCC+	P-5 (High)	Pfd-5 (High)	Highly Speculative
CCC	P-5	Pfd-5	
CCC-	P-5 (Low)	Pfd-5 (Low)	
CC	CC	Pfd-5 (Low)	
C+	C	Pfd-5 (Low)	
C	C	Pfd-5 (Low)	
C-	C	Pfd-5 (Low)	
D	D	D	In Arrears

Source: DBRS; S&P

Retractable Preferred Shares



Description: Retractable preferred shares include a feature that allows the holder to force the company to redeem the shares at par value on a specific date. Some issues are referred to as hard retractables - meaning the issuer must pay cash upon retraction. There are also soft retractables which give the issuer the option of repaying the par value in cash or in common shares. The flexible payment option can result in a stronger balance sheet for the issuer which may lead to a favourable rating from credit rating agencies. This optionality gives the issuer the right to pay the preferred retraction in stock instead of cash if it falls into financial hardship. In the past, most issuers have redeemed this type of preferred share for cash rather than common stock. Investment grade issuers, will more often redeem their preferreds for cash rather than issue new common stock which may dilute earnings per share. The retraction feature is considered very attractive by investors as these preferred shares have a definitive maturity date and investors can therefore estimate future cash flows. In addition, this is the type of preferred share which most closely resembles bonds.

Redemption: The issuer may redeem retractable preferred shares for cash or for common shares, depending on the terms of the issue, on/after the various redemption dates. The redemption date(s) may either be on or before the retraction date. Often, when there is a substantial amount of time between redemption and retraction dates, the early redemption price is at a premium that declines each year as the retraction date approaches.

Retraction: On this date the holder can force the issuer to pay the par value of the preferred share. With respect to soft retractables a payment in the form of common shares is typically at 95% of the weighted average trading range over the previous 20 days, subject to a minimum price. For example, an investor who holds 100 preferred shares with a \$25 par value and the average trading price for the common stock is \$50, will receive 0.526 ($\$25/0.95*\50) common shares for each preferred. This discount is intended to compensate the investor for the transaction costs of selling the shares in the secondary market and generating cash. The retraction date usually follows the redemption date by a number of days that is specific to each issue. If there is a substantial difference between the yield to redemption and yield to retraction, an investor should look at the lowest yield as it will be the most conservative return estimate.

Advantages: The advantages of holding retractable preferred shares pertain to the fact that these structures have a defined maturity date on which the investor is assured of a return of their principal. In addition, this type of preferred share is less interest rate sensitive as it has a shorter duration than those preferred shares which lack a maturity date.

Risks: The most prevalent risk is early call risk, as issuers usually have the ability to redeem these shares earlier than the retraction date forcing the investor to re-invest at prevailing market rates. Additionally, the value of any preferred share will vary with the general level of interest rates as prices will move inversely to interest rate movements.

What's New: This sector of the preferred share market is shrinking as many issuers have redeemed existing retractable preferred shares. During 2013, 22 million shares (worth \$550.5 million) retractable preferred shares were redeemed. There were also 2 new retractable preferred shares issued in 2013. Canadian General Investments redeemed its existing retractable which had a dividend rate of 4.65% and was able to issue a new 9-year retractable with a dividend rate of 3.75%. Birchcliff was also able to issue \$50 million of a 7 year retractable.

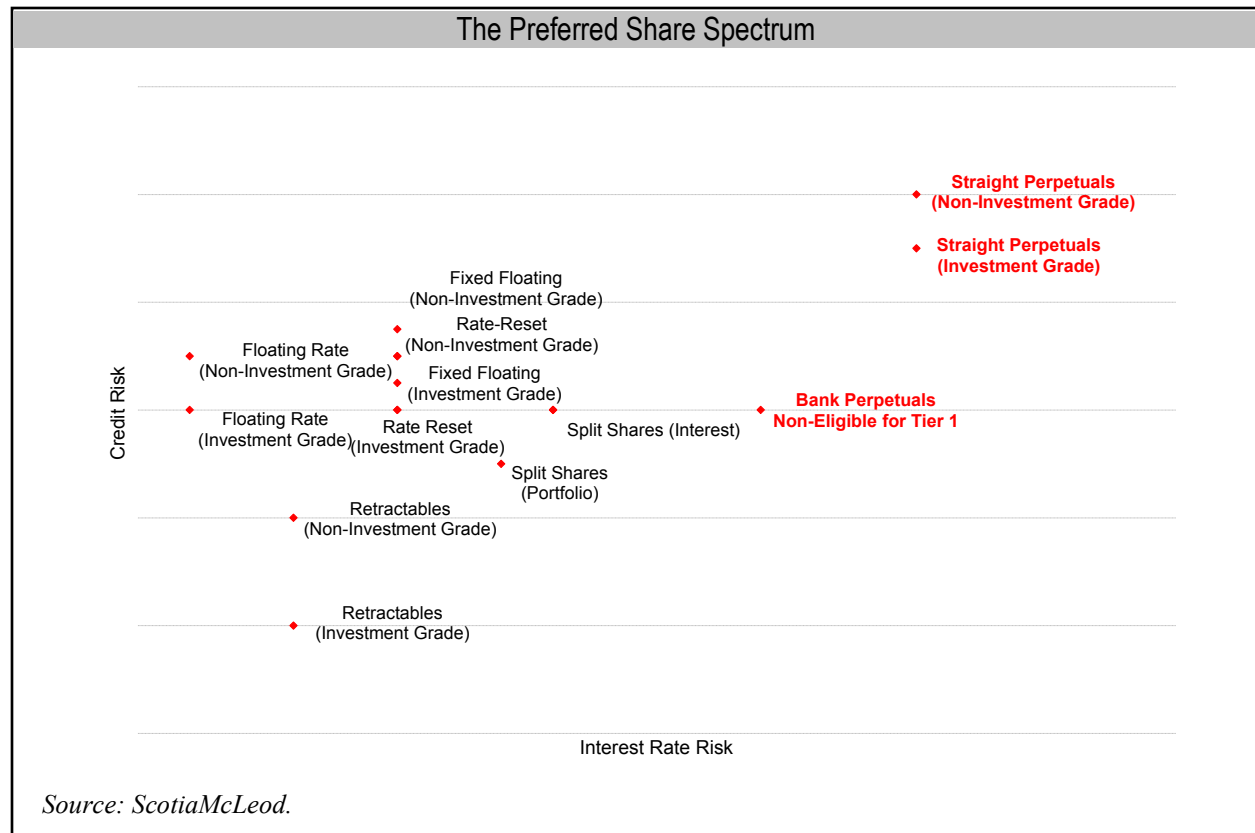
Sector Themes: Of the retractable preferred shares still outstanding in the market many can be called at the issuers' option within 30 days notice. Based on the current environment it is likely that we will see additional retractable preferred shares being redeemed in the future with limited new issuance as this type of preferred share is not considered as strong from a capital perspective as a rate reset or fixed perpetual preferred share. This type of preferred share will likely continue to be illiquid with further redemptions expected in 2014. Contact your ScotiaMcLeod advisor for a current list of recommendations.

Retractable Preferred Share Table												
Issuer <i>Investment Grade (P1-P2)</i>	TSE Symbol	RATING		Price		RETRACTION			REDEMPTION			
		DBRS	S&P	Dec 31/13	Div	Date	Price	Pre-Tax YTR	Worst Case Call Date	Call Price	Yield to Worst	
Brookfield Asset 5.40% S 12	BAM.PR.J	Pfd-2L	P-2	\$26.25	\$1.350	31-Mar-18	25.00	4.17%	30-Mar-14	26.00	1.76%	
CDN Genl. Invest. 3.75% Ser 4	CGI.PR.D	Pfd-1L	N/A	\$24.98	\$0.938	15-Jun-22	25.00	3.81%	15-Jun-20	25.50	4.10%	
CDN Genl. Invest. 3.9% Ser 3	CGI.PR.C	Pfd-1L	N/A	\$25.51	\$0.975	15-Jun-16	25.00	3.18%	15-Jun-14	25.25	2.24%	
Fortis Inc. 4.90% Series E	FTS.PR.E	Pfd-2L /*	P-2	\$25.81	\$1.225	1-Sep-16	25.00	3.86%	1-Jun-14	25.50	3.26%	
Manulife 4.10% Ser. 1	MFC.PR.A	Pfd-2H	P-2 (H)	\$25.51	\$1.025	19-Dec-15	25.00	3.19%	19-Jun-14	25.25	2.42%	
N-Scotia Pwr. 1st. 5.90% Ser. D	NSI.PR.D	Pfd-2L	P-2 (L)	\$26.70	\$1.475	15-Jan-16	25.00	2.43%	15-Oct-15	25.00	1.96%	
<i>Non-Investment Grade (P3 - P4)</i>												
Birchcliff 7.00% Ser C	BIR.PR.C	N/A	N/A	\$24.00	\$1.750	30-Jun-20	25.00	7.87%	30-Jun-20	25.00	8.24%	
Brookfield 5.00% Ser. J	BPO.PR.J	Pfd-3	P-3	\$25.25	\$1.250	30-Dec-14	25.00	4.22%	30-Jun-14	25.00	3.38%	
Brookfield 5.20% Ser. K	BPO.PR.K	Pfd-3	P-3	\$25.82	\$1.300	31-Dec-16	25.00	4.11%	14-Feb-14	25.67	-4.18%	
Brookfield 5.25% U.S.\$ G	BPO.PR.U	Pfd-3	P-3	\$25.30	\$1.313	30-Sep-15	25.00	4.69%	30-Jun-14	25.25	3.21%	
Brookfield 5.75% Ser. H	BPO.PR.H	Pfd-3	P-3	\$25.46	\$1.438	31-Dec-15	25.00	4.92%	14-Feb-14	25.33	-2.64%	
Dream Ltd Ser 1 7.00% (\$7.16 par)	DRM.PR.A	N/A	N/A	\$7.41	\$0.501	30-Dec-15	7.16	5.32%	14-Feb-14	7.30	-15.42%	
Dundee Corp Ser 4 5.00% (\$17.84 par)	DC.PR.C	N/A	N/A	\$17.69	\$0.892	30-Jun-16	17.84	5.50%	30-Jun-15	17.84	5.83%	
Loblaw 5.95% Ser. A	L.PR.A	Pfd-3 /*	P-3 (H)/*	\$26.25	\$1.488	30-Jul-15	25.00	3.48%	14-Feb-14	25.75	-9.37%	

Worst case call date is the date which generates the lowest yield if the issuer redeems the preferred share.
Retraction date is when the holder of the preferred can force the issuer to redeem the preferred for the par value.

Source: Bloomberg, ScotiaMcLeod

Fixed Rate Perpetual Preferred Shares



Description: Fixed rate perpetual preferred shares have no maturity date. These structures pay a fixed dividend for as long as they remain outstanding. However, the issuer has the option of redeeming these while the holder has no retraction rights. If a fixed rate perpetual preferred is not redeemed by the issuer, investors have the option of selling them in the secondary market or holding them indefinitely.

Redemption: Fixed rate perpetuals are redeemable at the option of the issuer. Issuers like this form of financing as it gives them the ability to pay a fixed dividend indefinitely without worrying about refinancing levels. That being said, there are other factors which may entice an issuer to either call the preferred shares or leave them outstanding such as the most recent Basel III requirements.

Advantages: This type of preferred share offers investors the highest yield and a stable form of tax-efficient dividend income. Additionally, this class of preferred share may be used to profit from anticipated interest rate or credit spread movements. Due to their long duration perpetual preferred shares will rise in value as credit spreads and interest rates decline. However, the opposite will happen when interest rates shift higher or when credit spreads widen.

Risks: Compared to all other classes of preferred shares (at a given credit rating) the fixed rate perpetuals carry the greatest price volatility as these structures are very sensitive to fluctuations in interest rates and credit spreads. This type of preferred share is most comparable to corporate long bonds (30-year) and due to the new Basel III regulations - bank perpetuals should now be compared to 10-year corporate bonds. This characteristic does not rule them out as a good choice in a diversified portfolio of preferred shares as they often offer attractive returns to compensate investors for taking on the risk of holding a security in perpetuity. However, investors who are not comfortable holding 30-year corporate bonds should not invest in fixed rate perpetual preferred shares.

What's New: In 2013, there was \$1.37 billion (7 securities) of new fixed rate perpetuals issued in both the financial and utility sectors. Brookfield Renewable Power was the most active issuer in the perpetual preferred share market as the company issued 2 securities for a total of \$350 million. The majority of the issuance (74.5%) was considered investment grade by the credit rating agencies. Issuers benefited by having the ability to lock in cheap financing indefinitely however, demand for this type of product was less than the demand for rate reset new issuance. All of the fixed rate perpetuals were issued before June, and ahead of the moves in long-dated interest rates.

On the redemption front, 49.9 million shares (worth \$1.255 billion) fixed rate perpetual preferred shares were redeemed over the year. In 2013, the treatment of Tier 1 Capital for the banks was reduced by 10% as per Basel III regulations. Therefore, it was not surprising to see that 81% of the perpetual redemptions were bank preferred shares. The banks focused on redeeming their higher dividend perpetuals as it is expensive to leave outstanding as they will eventually not count as Tier 1 Capital on the banks balance sheet. There was no issuance from the banks on the back of the redemptions as Tier 1 Capital ratios remained at strong levels.

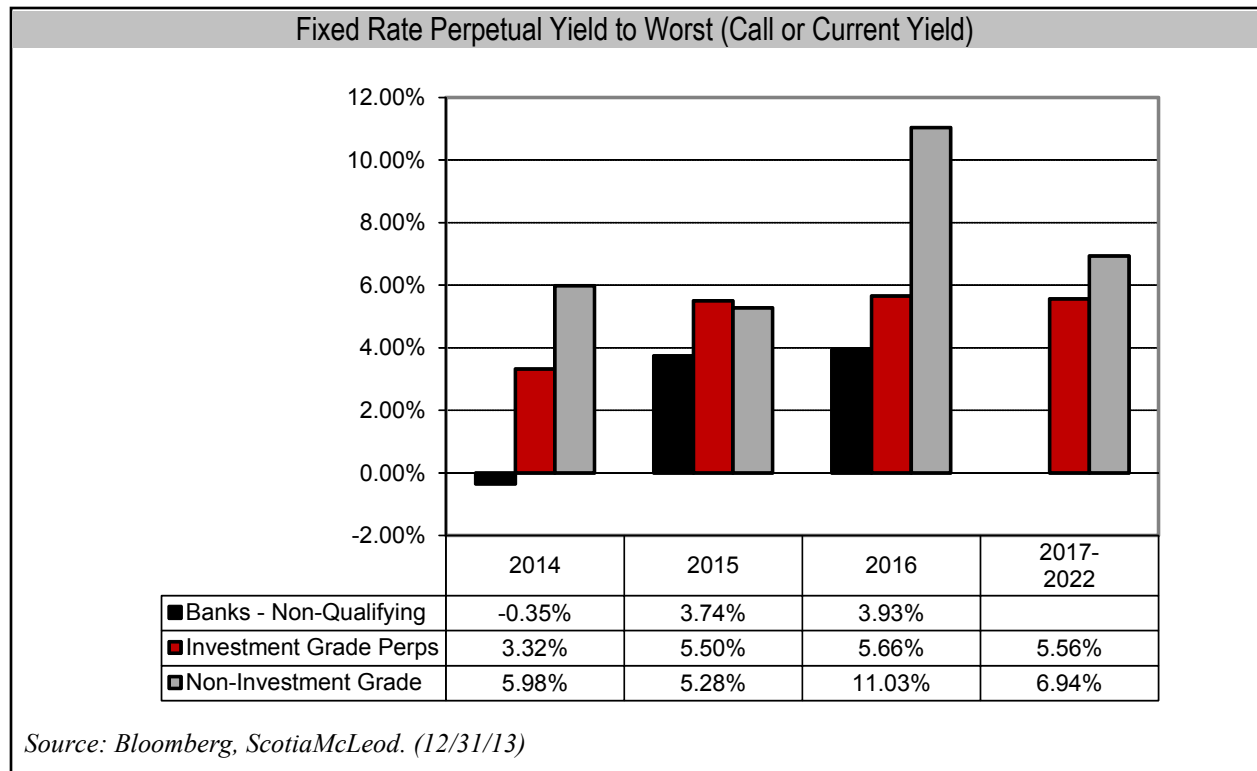
Sector Themes: This type of security should be purchased by investors who already own a diversified portfolio of preferred shares or those searching for income from a well known issuer. This caveat is due to the higher volatility in the prices of these preferred shares (relative to fixed term preferred shares) during periods of rising interest rates or widening credit spreads. Investors are also encouraged to look at the lower yield between current yield and yield to call to determine the attractiveness of a specific security.

The bank fixed rate perpetual preferred shares which will have their capital treatment phased out in order to be compliant with Basel III regulations are trading based on the notion they will be redeemed by 2022. These securities should be viewed as a different type of security as their prices will fluctuate based on different factors and as such we have separated them for our analysis.

These non-compliant bank perpetuals all have potential call dates in 2014 at various prices. It is unlikely that all bank perpetuals will be called in 2014 as the majority of the banks have a hefty redemption schedule with their rate reset securities. Overall, it is the expectation that banks will continue to redeem perpetual preferred shares which have a higher dividend payment and move towards the lower dividend paying securities over the next 9 years.

Fixed Rate Perpetual Yield Commentary

The graph below depicts the average yield to worst for each year across the various groups of straight perpetual preferred shares. Yield to worst calculation is based on the lower of: (1) current yield and (2) yield-to-worst and is considered the most conservative return evaluation. It is not advised to purchase any fixed rate perpetual preferred shares which have a negative yield. However, moving into securities that have a longer potential call date, investors are able to pick up a higher return but must be aware of the price volatility than can be experienced in a rising interest rate environment. For example, if long-term (30-year) interest rates increased by 1.00%, the price of a 5.00% dividend fixed rate perpetual has the potential to decline in price by -16.67% given no change in credit spreads. The bank perpetuals which are non-complaint with Basel III are trading with a lower yield that other non-bank perpetuals due to the expectation of being redeemed.



Non-Qualifying Bank Perpetual Preferred Share Table

Issuer Investment Grade (P1-P2)	RATING			Price Dec 31/13	Div	Current Yield	REDEMPTION			2022 REDEMPTION		
	TSE Symbol	DBRS	S&P				Worst Call Date	Call Price	Yield to Worst	Call Price	Potential Call Date	Yield to Call
BMO 4.50% Ser. 13	BMO.PR.J	Pfd-2H	P-2	\$25.45	\$1.125	4.42%	25-Feb-16	25.00	3.94%	25.00	31-Jan-22	4.25%
BMO 5.25% Ser. 14	BMO.PR.K	Pfd-2H	P-2	\$25.92	\$1.313	5.06%	14-Feb-14	25.75	3.17%	25.00	31-Jan-22	4.72%
BMO 5.80% Ser. 15	BMO.PR.L	Pfd-2H	P-2	\$26.31	\$1.450	5.51%	14-Feb-14	26.00	-3.09%	25.00	31-Jan-22	5.03%
BNS 4.80% Ser. 13	BNS.PR.K	Pfd-2H	P-2 (H)	\$25.45	\$1.200	4.72%	27-Apr-14	25.00	2.24%	25.00	31-Jan-22	4.69%
BNS 4.50% Ser. 14	BNS.PR.L	Pfd-2H	P-2 (H)	\$25.62	\$1.125	4.39%	26-Apr-16	25.00	3.84%	25.00	31-Jan-22	4.29%
BNS 4.50% Ser. 15	BNS.PR.M	Pfd-2H	P-2 (H)	\$25.62	\$1.125	4.39%	26-Jul-16	25.00	3.90%	25.00	31-Jan-22	4.29%
BNS 5.25% Ser. 16	BNS.PR.N	Pfd-2H	P-2 (H)	\$26.09	\$1.313	5.03%	26-Jan-14	25.75	-2.76%	25.00	31-Jan-22	4.77%
BNS 5.60% Ser. 17	BNS.PR.O	Pfd-2H	P-2 (H)	\$26.44	\$1.400	5.30%	14-Feb-14	26.00	-5.00%	25.00	31-Jan-22	4.92%
HSBC 5.10% Ser. C	HSB.PR.C	Pfd-2	P-1 (L)	\$25.01	\$1.275	5.10%	30-Jun-14	25.00	5.70%	25.00	31-Jan-22	5.09%
HSBC 5.0% Ser. D	HSB.PR.D	Pfd-2	P-1 (L)	\$25.25	\$1.250	4.95%	31-Dec-14	25.00	4.21%	25.00	31-Jan-22	4.84%
National Bank 4.85% S.16	NA.PR.L	Pfd-2	P-2	\$25.23	\$1.213	4.81%	15-May-14	25.00	4.77%	25.00	31-Jan-22	4.92%
National Bank 6.00% S.20	NA.PR.M	Pfd-2	P-2	\$26.30	\$1.500	5.70%	15-May-14	25.75	2.44%	25.00	31-Jan-22	5.47%
Royal Bank 4.45% Ser. AA	RY.PR.A	Pfd-2H	P-1 (L)	\$25.46	\$1.113	4.37%	24-May-15	25.00	3.58%	25.00	31-Jan-22	4.19%
Royal Bank 4.70% Ser. AB	RY.PR.B	Pfd-2H	P-1 (L)	\$25.56	\$1.175	4.60%	24-Aug-15	25.00	3.73%	25.00	31-Jan-22	4.38%
Royal Bank 4.60% Ser. AC	RY.PR.C	Pfd-2H	P-1 (L)	\$25.49	\$1.150	4.51%	24-Nov-15	25.00	3.90%	25.00	31-Jan-22	4.45%
Royal Bank 4.50% Ser. AD	RY.PR.D	Pfd-2H	P-1 (L)	\$25.41	\$1.125	4.43%	24-Feb-16	25.00	4.03%	25.00	31-Jan-22	4.27%
Royal Bank 4.50% Ser. AE	RY.PR.E	Pfd-2H	P-1 (L)	\$25.39	\$1.125	4.43%	24-Feb-16	25.00	4.07%	25.00	31-Jan-22	4.28%
Royal Bank 4.45% Ser. AF	RY.PR.F	Pfd-2H	P-1 (L)	\$25.48	\$1.113	4.37%	24-May-16	25.00	3.90%	25.00	31-Jan-22	4.18%
Royal Bank 4.50% Ser. AG	RY.PR.G	Pfd-2H	P-1 (L)	\$25.48	\$1.125	4.42%	24-May-16	25.00	3.96%	25.00	31-Jan-22	4.23%
TD Bank 4.85% Ser. O	TD.PR.O	Pfd-2H	P-1 (L)	\$25.44	\$1.213	4.77%	31-Oct-14	25.00	3.95%	25.00	31-Jan-22	4.74%
TD Bank 5.25% Ser. P	TD.PR.P	Pfd-2H	P-1 (L)	\$26.09	\$1.313	5.03%	14-Feb-14	25.75	-1.32%	25.00	31-Jan-22	4.76%
TD Bank 5.60% Ser. Q	TD.PR.Q	Pfd-2H	P-1 (L)	\$26.31	\$1.400	5.32%	31-Jan-14	25.75	-25.73%	25.00	31-Jan-22	4.99%
TD Bank 5.60% Ser. R	TD.PR.R	Pfd-2H	P-1 (L)	\$26.30	\$1.400	5.32%	14-Feb-14	26.00	1.92%	25.00	31-Jan-22	4.99%
Non-Investment Grade (P3-P4)												
Laurentian Bank 5.25% Ser. 10	LB.PRE	Pfd-3	P-3 (H)	\$25.00	\$1.313	5.25%	14-Feb-14	25.00	5.78%	25.00	31-Jan-22	5.26%

Source: Bloomberg, ScotiaMcLeod.

Fixed Rate Perpetual Preferred Share Table

Issuer Investment Grade (P1-P2)	TSE Symbol	RATING		Price Dec 31/13	Div	Current Yield	REDEMPTION		Yield to Worst
		DBRS	S&P				Worst Call Date	Call Price	
Brookfield Asset Mgmt 4.85% Ser. 36	BAM.PF.C	Pfd-2L	P-2	\$19.56	\$1.213	6.20%	31-Mar-22	25.00	8.62%
Brookfield Asset Mgmt 4.90% Ser. 37	BAM.PF.D	Pfd-2L	P-2	\$19.84	\$1.225	6.17%	30-Sep-22	25.00	8.30%
Brookfield Asset Mgmt 4.75% Ser. 17	BAM.PR.M	Pfd-2L	P-2	\$19.02	\$1.188	6.24%	31-Dec-15	25.00	20.07%
Brookfield Asset Mgmt 4.75% Ser. 18	BAM.PR.N	Pfd-2L	P-2	\$18.77	\$1.188	6.33%	30-Jun-16	25.00	17.66%
CDN Util. 4.50% Ser. CC	CU.PR.F	Pfd-2H	P-2 (H)	\$21.34	\$1.125	5.27%	1-Jun-22	25.00	6.91%
CDN Util. 4.50% Ser. DD	CU.PR.G	Pfd-2H	P-2 (H)	\$21.50	\$1.125	5.23%	1-Jun-22	25.00	6.80%
CDN Util. 4.90% Ser. AA	CU.PR.D	Pfd-2H	P-2 (H)	\$23.00	\$1.225	5.33%	1-Sep-21	25.00	6.34%
CDN Util. 4.90% Ser. BB	CU.PR.E	Pfd-2H	P-2 (H)	\$23.00	\$1.225	5.33%	1-Sep-21	25.00	6.34%
CIBC 5.40% Ser. 29	⊙ CM.PR.G	Pfd-2	N/A	\$24.95	\$1.350	5.41%	30-Apr-14	25.00	5.67%
CIBC 5.60% Ser. 27	⊙ CM.PR.E	Pfd-2	P-2	\$25.10	\$1.400	5.58%	14-Feb-14	25.00	-3.77%
CIBC 5.75% Ser. 26	⊙ CM.PR.D	Pfd-2	P-2	\$25.24	\$1.438	5.70%	14-Feb-14	25.00	-11.68%
Co-operators Ser. C 5.00%	CCS.PR.C	Pfd-3	P-2	\$22.25	\$1.250	5.62%	30-Jun-16	25.00	10.28%
CU Inc. 4.60% Ser. 1	CIU.PRA	Pfd-2H	P-2 (L)	\$21.50	\$1.150	5.35%	1-Jun-16	25.00	11.78%
E-L Financial 4.75% Ser. 2	ELF.PR.G	N/A	P-2 (H)	\$20.76	\$1.188	5.72%	17-Oct-15	25.00	16.16%
E-L Financial 5.50% Ser. 3	ELF.PR.H	N/A	P-2 (H)	\$23.30	\$1.375	5.90%	17-Apr-21	25.00	6.70%
E-L Financial Corp. 5.30%	ELF.PR.F	N/A	P-2 (H)	\$22.55	\$1.325	5.88%	14-Feb-14	25.00	183.48%
Emera Inc. 4.50% Ser E	EMA.PR.E	Pfd-3H /*	P-2 (L)	\$20.12	\$1.125	5.59%	15-Aug-22	25.00	7.77%
Enbridge 5.50% Ser. A	ENB.PRA	Pfd-2L	P-2	\$25.09	\$1.375	5.48%	14-Feb-14	25.00	5.91%
Fortis Inc. 4.75% Ser. J	FTS.PR.J	Pfd-2L /*	P-2	\$21.97	\$1.188	5.41%	1-Dec-21	25.00	6.86%
Fortis Inc. 4.90% Ser. F	FTS.PR.F	Pfd-2L /*	P-2	\$22.40	\$1.225	5.47%	1-Dec-15	25.00	11.59%
Great West 4.5% Ser. I	GWO.PR.I	Pfd-1L	P-1 (L)	\$21.35	\$1.125	5.27%	30-Jun-15	25.00	16.28%
Great West 4.80% Ser. R	GWO.PR.R	Pfd-1L	P-1 (L)	\$21.94	\$1.200	5.47%	31-Dec-21	25.00	6.85%
Great West 4.85% Ser. H	GWO.PR.H	Pfd-1L	P-1 (L)	\$22.15	\$1.213	5.47%	30-Sep-14	25.00	23.59%
Great West 5.15% Ser. Q	GWO.PR.Q	Pfd-1L	P-1 (L)	\$22.95	\$1.288	5.61%	30-Sep-21	25.00	6.56%
Great West 5.20% Ser. G	GWO.PR.G	Pfd-1L	P-1 (L)	\$23.05	\$1.300	5.64%	14-Feb-14	25.00	147.59%
Great West 5.40% Ser. P	GWO.PR.P	Pfd-1L	P-1 (L)	\$24.04	\$1.350	5.62%	31-Mar-21	25.00	6.11%
Great West 5.65% Ser. L	GWO.PR.L	Pfd-1L	P-1 (L)	\$24.88	\$1.413	5.68%	30-Dec-18	25.00	5.84%
Great West 5.80% Ser. M	GWO.PR.M	Pfd-1L	P-1 (L)	\$25.53	\$1.450	5.68%	31-Mar-19	25.00	5.40%
Great West 5.90% Ser. F	GWO.PR.F	Pfd-1L	P-1 (L)	\$25.10	\$1.475	5.88%	14-Feb-14	25.00	2.18%
IGM Financial Inc. 5.90% Ser. B	IGM.PR.B	Pfd-2H	P-1 (L)	\$25.50	\$1.475	5.78%	30-Dec-18	25.00	5.23%
Industrial Alliance 4.60%	IAG.PRA	Pfd-2H	P-1 (L)	\$21.80	\$1.150	5.28%	31-Mar-15	25.00	16.93%
Industrial Alliance 5.90% Ser. F	IAG.PR.F	Pfd-2H	P-1 (L)	\$25.33	\$1.475	5.82%	31-Mar-19	25.00	5.68%
Industrial Alliance 6.00% Ser. E	IAG.PRE	Pfd-2H	P-1 (L)	\$25.89	\$1.500	5.79%	31-Dec-18	25.00	5.25%
Manulife Financial 4.50% S. 3	MFC.PR.C	Pfd-2H	P-2 (H)	\$20.80	\$1.125	5.41%	19-Mar-15	25.00	21.68%
Manulife Financial 4.65% S. 2	MFC.PR.B	Pfd-2H	P-2 (H)	\$21.22	\$1.163	5.48%	19-Mar-14	25.00	127.19%
Power Corp. 5.00% Ser.D	POW.PR.D	Pfd-2H	P-2 (H)	\$22.49	\$1.250	5.56%	15-Oct-14	25.00	20.17%
Power Corp. 5.35% Ser.B	POW.PR.B	Pfd-2H	P-2 (H)	\$23.74	\$1.338	5.63%	14-Feb-14	25.00	86.25%
Power Corp. 5.60% Ser.A	POW.PR.A	Pfd-2H	P-2 (H)	\$24.69	\$1.400	5.67%	14-Feb-14	25.00	21.74%
Power Corp. 5.60% Ser.G	POW.PR.G	Pfd-2H	P-2 (H)	\$24.90	\$1.400	5.62%	15-Apr-21	25.00	5.68%
Power Corp. 5.80% Ser.C	POW.PR.C	Pfd-2H	P-2 (H)	\$25.09	\$1.450	5.78%	14-Feb-14	25.00	-2.42%
Power Finl. 4.80% Ser. S	PWF.PR.S	Pfd-1L	P-1 (L)	\$22.05	\$1.200	5.44%	30-Apr-22	25.00	6.85%
Power Finl. 4.95% Ser. K	PWF.PR.K	Pfd-1L	P-1 (L)	\$22.55	\$1.238	5.49%	31-Oct-14	25.00	20.45%
Power Finl. 5.10% Ser. L	PWF.PR.L	Pfd-1L	P-1 (L)	\$23.41	\$1.275	5.45%	31-Oct-15	25.00	9.74%
Power Finl. 5.25% Ser. E	PWF.PR.F	Pfd-1L	P-1 (L)	\$23.35	\$1.313	5.62%	14-Feb-14	25.00	136.53%
Power Finl. 5.50% Ser. D	PWF.PR.E	Pfd-1L	P-1 (L)	\$24.37	\$1.375	5.64%	14-Feb-14	25.00	59.68%
Power Finl. 5.50% Ser. R	PWF.PR.R	Pfd-1L	P-1 (L)	\$24.46	\$1.375	5.62%	30-Apr-21	25.00	6.08%
Power Finl. 5.75% Ser. H	PWF.PR.H	Pfd-1L	P-1 (L)	\$24.97	\$1.438	5.76%	14-Feb-14	25.00	21.78%
Power Finl. 5.80% Ser. O	PWF.PR.O	Pfd-1L	P-1 (L)	\$25.46	\$1.450	5.70%	31-Oct-18	25.00	5.66%
Power Finl. 5.90% Ser. F	PWF.PR.G	Pfd-1L	P-1 (L)	\$25.31	\$1.475	5.83%	14-Feb-14	25.00	1.97%
Power Finl. 6.00% Ser. I	PWF.PR.I	Pfd-1L	P-1 (L)	\$25.45	\$1.500	5.89%	14-Feb-14	25.00	-5.51%
Royal Bank 4.90% Ser. W	⊙ RY.PR.W	N/A	P-1 (L)	\$24.97	\$1.225	4.91%	24-Feb-14	25.00	14.20%
Sun Life Fin. 4.45% Ser. 3	SLF.PR.C	Pfd-2H	P-2 (H)	\$20.82	\$1.113	5.34%	29-Mar-15	25.00	21.01%
Sun Life Fin. 4.45% Ser. 4	SLF.PR.D	Pfd-2H	P-2 (H)	\$20.88	\$1.113	5.33%	31-Dec-15	25.00	14.47%
Sun Life Fin. 4.50% Ser. 5	SLF.PRE	Pfd-2H	P-2 (H)	\$21.08	\$1.125	5.34%	30-Mar-16	25.00	12.97%
Sun Life Fin. 4.75% Ser. 1	SLF.PRA	Pfd-2H	P-2 (H)	\$21.91	\$1.188	5.42%	28-Mar-14	25.00	86.50%
Sun Life Fin. 4.80% Ser. 2	SLF.PR.B	Pfd-2H	P-2 (H)	\$21.95	\$1.200	5.47%	30-Sep-14	25.00	24.94%
TransCanada 5.6% Ser. Y	TCA.PR.Y	Pfd-2L	P-2	\$49.85	\$2.800	5.62%	5-Mar-14	50.00	2.50%
Westcoast 5.50% Ser. 7	W.PR.H	Pfd-2L	P-3 (H)	\$24.69	\$1.375	5.57%	14-Feb-14	25.00	19.81%
Westcoast 5.60% Ser. 8	W.PR.J	Pfd-2L	P-3 (H)	\$24.72	\$1.400	5.66%	14-Feb-14	25.00	17.97%

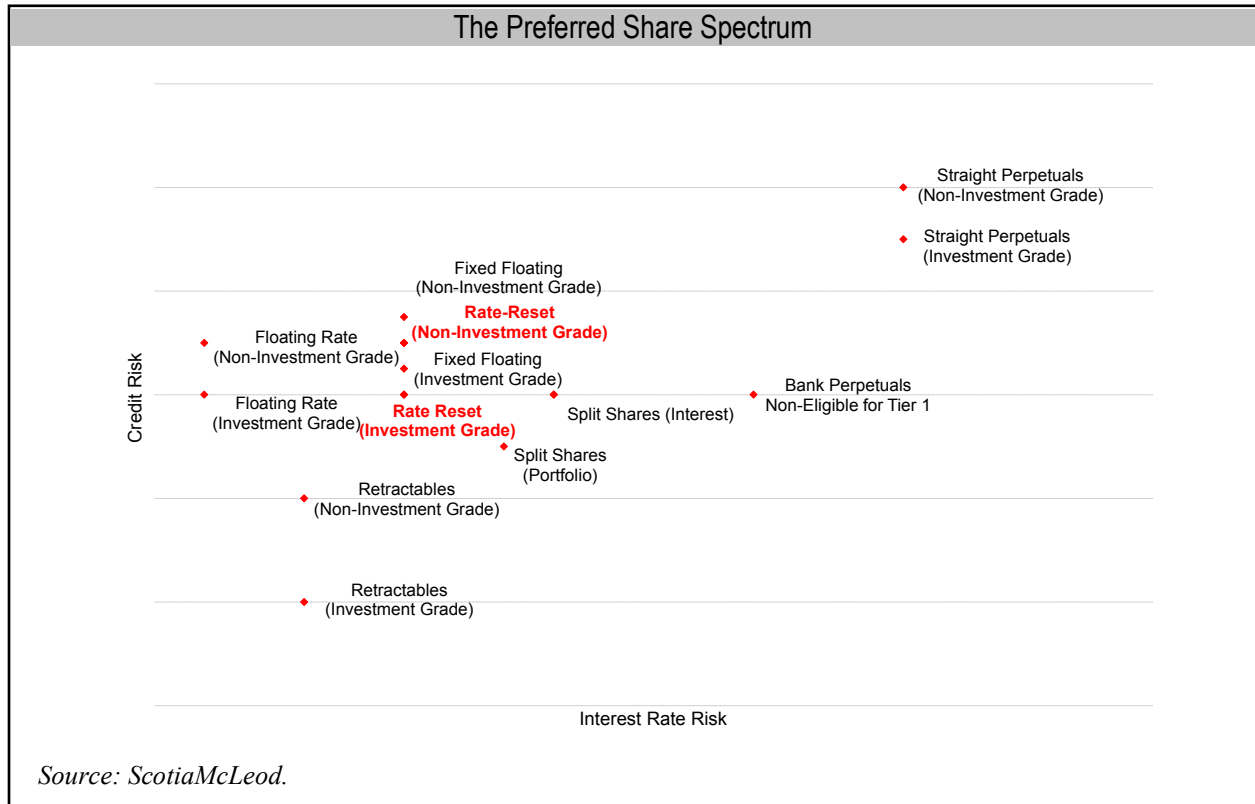
⊙ Convertible into common shares - Unlikely to be redeemed under Basel III regulations

Non-Investment Grade (P3-P4)

Atlantic Power 4.85% Ser 1	AZP.PRA	Pfd-5H	P-5	\$10.99	\$1.213	11.03%	28-Jun-16	25.00	43.44%
Bombardier 6.25% Ser. 4	BBD.PR.C	N/A	P-4	\$22.37	\$1.563	6.98%	14-Feb-14	25.00	200.15%
Brookfield Renewable Energy 5.00% Ser 5	BRF.PRE	Pfd-3H	P-3 (H)	\$19.28	\$1.250	6.48%	30-Apr-22	25.00	9.16%
Brookfield Renewable Energy 5.00% Ser 6	BRF.PRF	Pfd-3H	P-3 (H)	\$19.21	\$1.250	6.51%	31-Jul-22	25.00	9.12%
G. Weston Ltd. 4.75% Ser.V	WN.PRE	Pfd-3	P-3 (H)	\$22.50	\$1.188	5.28%	1-Jul-15	25.00	12.64%
G. Weston Ltd. 5.2% Ser.III	WN.PRC	Pfd-3	P-3 (H)	\$23.35	\$1.300	5.57%	1-Jul-14	25.00	21.90%
G. Weston Ltd. 5.2% Ser.IV	WN.PRD	Pfd-3	P-3 (H)	\$23.35	\$1.300	5.57%	1-Jul-14	25.00	21.90%
G. Weston Ltd. 5.8% Ser.I	WN.PRA	Pfd-3	P-3 (H)	\$24.93	\$1.450	5.82%	14-Feb-14	25.00	12.49%
Innergex Renewable Energy Inc 5.75%	INE.PRC	Pfd-4H	P-3	\$18.39	\$1.438	7.82%	15-Jan-22	25.00	10.85%

Source: Bloomberg, ScotiaMcLeod.

Rate Reset Perpetual Preferred Shares



Description: This class of preferred share pays a fixed dividend until the reset date, which is typically also the call date. On that date, and every reset date thereafter, if the preferred share is not called by the issuer, the **holder** has two options.

1. Locking in a fixed dividend until the next reset date. This rate is at a predetermined spread over an equivalent term Government of Canada bond.
2. Exchanging to a floating rate preferred share. The floating rate is a quarterly dividend based on 3-month Government of Canada Treasury bills, plus the same spread as in option 1.

Investors have the option at each reset date, if the issue is not called, of switching back and forth between the two dividend options.

Redemption: These preferred shares are redeemable at the option of the issuer on every reset date at par value (\$25.00). Additionally, if the floating rate option is chosen, the floating rate preferred shares may also be called at the option of the issuer, usually at a premium price. Issues currently outstanding are callable at a price of \$25.50 at any time. Rate-resets are perpetual in nature and are not retractable by the holder.

Advantages: In exchange for having no maturity date, investors are rewarded with an attractive dividend rate which is re-set in-line with yields prevailing in the market on a periodic basis. Due to this factor, this structure has less interest rate risk than straight perpetual preferred shares.

Risks: The main risk of investing in rate reset preferred shares is that they are perpetual and the issuer will only redeem these structures if it is in their best interest. In the long term, investors in perpetual securities need to be very concerned about credit quality and the future prospects of the issuer, as there is no obligation to ever redeem the issue.

What's New: Rate reset preferred shares which only originated in 2008, now contribute to more than half (54.3%) of the Canadian preferred shares market and made up approximately 70% of the new issues during the year. Pembina Pipeline Corp. was the only new issuer to launch its first preferred share this year. A list of all other rate resets preferred shares currently outstanding in the market can be found in the following tables.

This past year, marked the first reset date when issuers had the opportunity to redeem some of its rate reset securities or extend at a new dividend rate. As investors watched, Bank of Nova Scotia was the first to extend its Series 18 rate reset past the initial reset date. During the remainder of the year 5 other rate resets were extended. Even though all of the securities that extended were investment grade securities, it affected the non-investment grade securities as well. Once the first reset extended, investors started to pay closer attention to the size of the reset spread. Many rate resets, especially non-investment grade names, started to trade with a longer duration and were more sensitive to interest rate fluctuations due to the realization that these securities were unlikely to be redeemed at the first reset date.

Sector Trends: Redemptions of existing rate reset preferred shares is likely going to have a large impact on the price of the preferred share market in 2014. There is approximately \$10.2 billion of rate resets that have a reset date in 2014. It is expected that \$8.3 billion worth of these rate resets get redeemed throughout the year based on the wide reset spreads associated with these securities. This redemption value represents 13% of the entire preferred share market. Also the majority of redemptions will be investment grade securities and especially bank rate resets (10.6% of entire market).

Creating a ladder of rate reset preferred shares is a good strategy to reduce re-investment risk and be exposed to various interest rate environments. The decision to redeem or extend will be based on the individual company and will depend on:

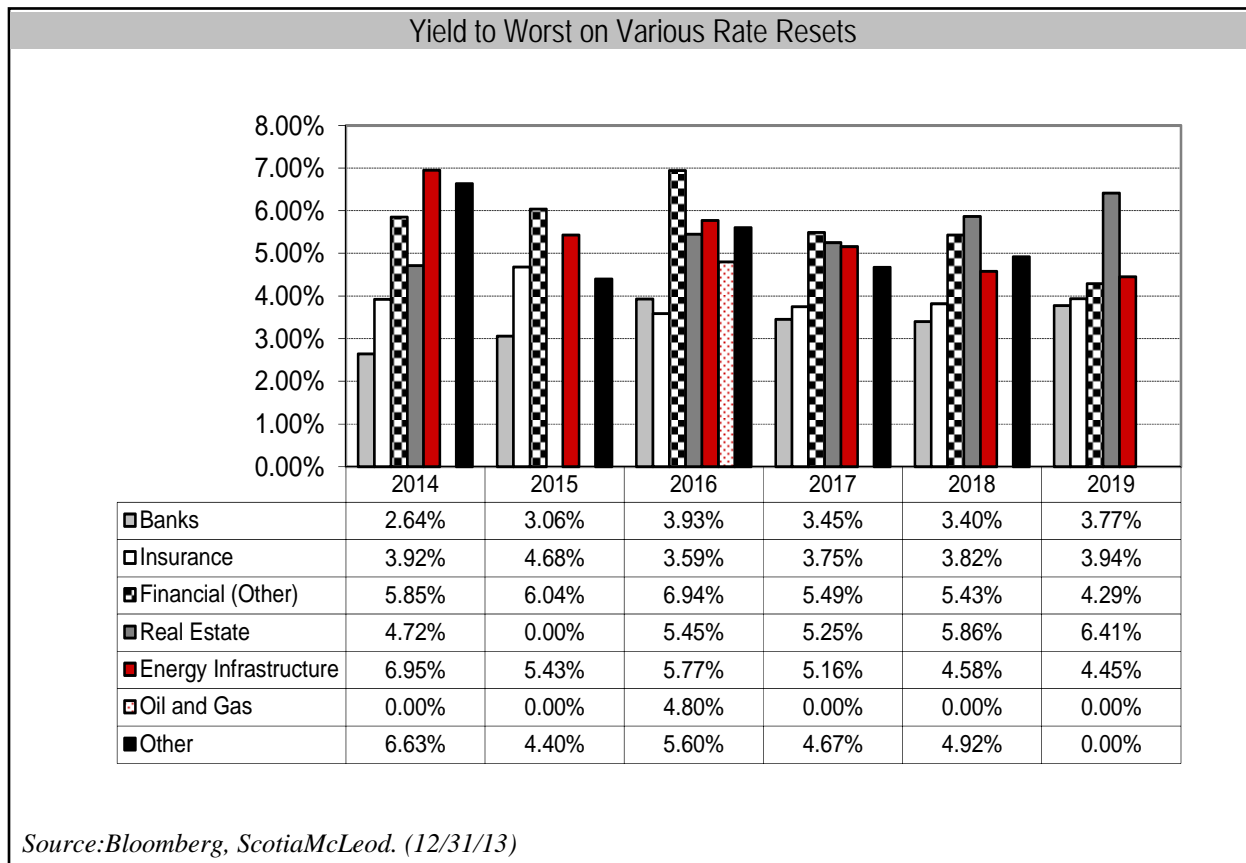
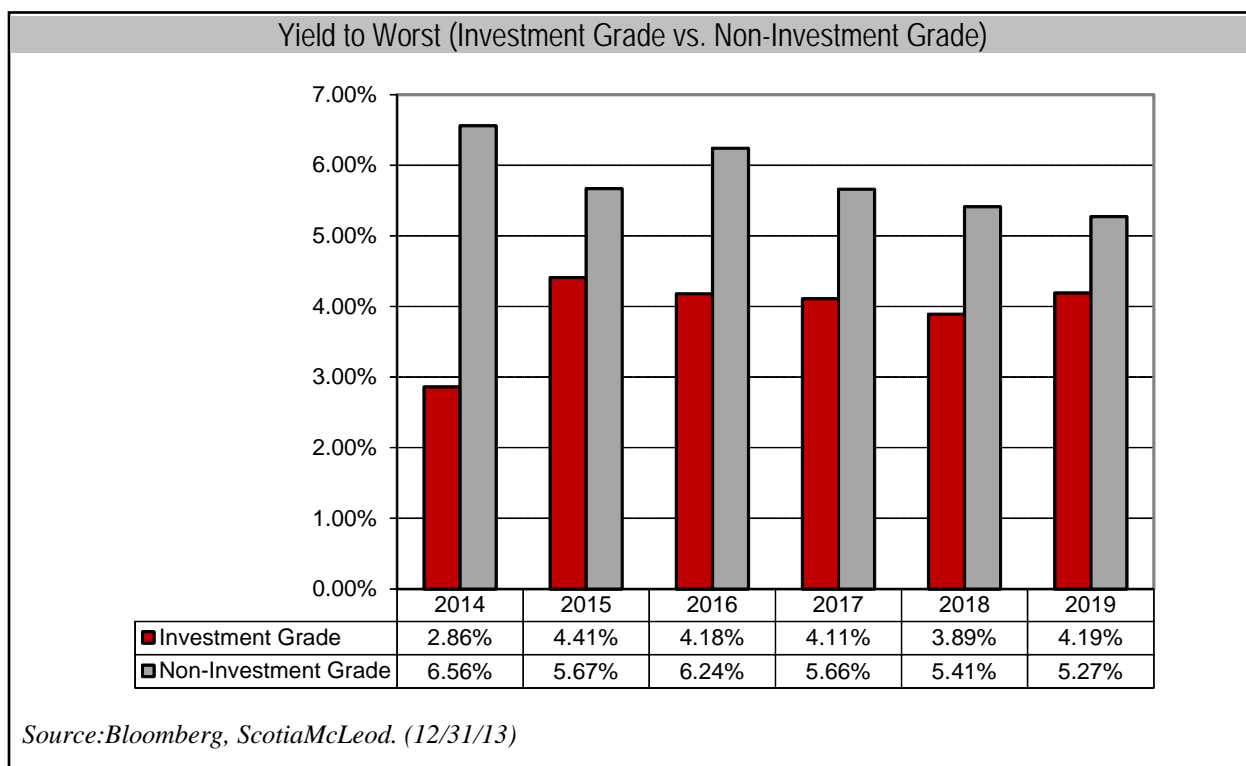
- (1) Company's cost of funding (credit spreads) at reset date
- (2) Funding needs of the company
- (3) Outstanding payment schedule
- (4) Capital structure (Tier 1 Capital ratio - banks)
- (5) Demand for preferred share products

The higher the reset spread the higher the likelihood of the preferred shares being redeemed at the initial reset date. It is important for investors to be aware of rate resets which have lower reset spreads as these securities could get extended past the initial call date and have prices lower than par and may not trade back to par. Please contact your ScotiaMcLeod advisor for a current list of recommendations.

Rate Reset Yield Commentary

The following charts highlight the yield to worst among different credits as well as the various sectors in the rate reset space. When considering purchasing a rate reset preferred share it is important to look at the lower yield between current yield and yield to reset as well as the reset spread. The 2014 investment grade rate resets have a low yield as it is the expectation that these will be called. However, the 2014 non-investment grade rate resets have higher yields as they have extension risk.

With respect to individual sectors, it is important to be aware of the specific credit of the company and the reset spread.



Rate Reset Perpetual Preferred Share Table

Issuer Investment Grade (P1-P2)	RATING			Price		Current Yield	REDEMPTION		
	TSE Symbol	DBRS	S&P	Dec 31/13	Div		Reset/Call Date	Yield to Reset	Reset Rate (5 - YR CAN)
Bank of Montreal 3.39% Ser 16	BMO.PR.M	Pfd-2H	P-2	\$24.97	\$0.848	3.39%	25-Aug-18	3.54%	+165 bp
Bank of Montreal 3.90% Ser 25	BMO.PR.Q	Pfd-2H	P-2	\$24.35	\$0.975	4.00%	25-Aug-16	5.22%	+115 bp
Bank of Montreal 5.40% Ser 23	BMO.PR.P	Pfd-2H	P-2	\$26.10	\$1.350	5.17%	25-Feb-15	2.09%	+241 bp
Bank of Montreal 6.50% Ser 18	BMO.PR.N	Pfd-2H	P-2	\$25.36	\$1.625	6.41%	25-Feb-14	1.85%	+383 bp
Bank of Montreal 6.50% Ser 21	BMO.PR.O	Pfd-2H	P-2	\$25.63	\$1.630	6.36%	25-May-14	2.10%	+458 bp
BCE Inc. 4.15% Ser AK	BCE.PR.K	Pfd-3H	P-2 (L)	\$21.98	\$1.038	4.72%	31-Dec-16	8.94%	+188 bp
BNS 3.35% Ser. 18	BNS.PR.P	Pfd-2H	P-2 (H)	\$25.37	\$0.838	3.30%	26-Apr-18	3.18%	+205 bp
BNS 3.61% Ser. 20	BNS.PR.Q	Pfd-2H	P-2 (H)	\$25.28	\$0.903	3.57%	26-Oct-18	3.55%	+170 bp
BNS 3.70% Ser. 32	BNS.PR.Z	Pfd-2H	P-2 (H)	\$23.94	\$0.925	3.86%	2-Feb-16	6.36%	+134 bp
BNS 3.85% Ser. 30	BNS.PR.Y	Pfd-2H	P-2 (H)	\$23.90	\$0.963	4.03%	26-Apr-15	8.32%	+100 bp
BNS 3.83% Ser. 22	BNS.PR.R	Pfd-2H	P-2 (H)	\$25.36	\$1.250	4.93%	26-Jan-19	3.77%	+188 bp
BNS 6.25% Ser. 26	BNS.PR.T	Pfd-2H	P-2 (H)	\$25.55	\$1.563	6.12%	24-Apr-14	3.57%	+414 bp
BNS 6.25% Ser. 28	BNS.PR.X	Pfd-2H	P-2 (H)	\$25.63	\$1.563	6.10%	26-Apr-14	2.28%	+446 bp
Brookfield Asset 4.20% S 34	BAM.PF.B	Pfd-2L	P-2	\$24.45	\$1.050	4.29%	31-Mar-19	4.73%	+263 bp
Brookfield Asset 4.50% S 26	BAM.PR.T	Pfd-2L	P-2	\$24.05	\$1.125	4.68%	31-Mar-17	5.90%	+231 bp
Brookfield Asset 4.50% S 32	BAM.PF.A	Pfd-2L	P-2	\$25.29	\$1.125	4.45%	30-Sep-18	4.28%	+290 bp
Brookfield Asset 4.60% S 28	BAM.PR.X	Pfd-2L	P-2	\$21.05	\$1.150	5.46%	30-Jun-17	10.19%	+180 bp
Brookfield Asset 4.80% S 30	BAM.PR.Z	Pfd-2L	P-2	\$25.39	\$1.200	4.73%	31-Dec-17	4.44%	+296 bp
Brookfield Asset 5.40% S 24	BAM.PR.R	Pfd-2L	P-2	\$25.35	\$1.350	5.33%	30-Jun-16	4.92%	+230 bp
Brookfield Asset 7.00% S 22	BAM.PR.P	Pfd-2L	P-2	\$25.60	\$1.750	6.84%	30-Sep-14	4.05%	+445 bp
Canadian Utilities 4.00% Series Y	CU.PR.C	Pfd-2H	P-2 (H)	\$25.70	\$1.000	3.89%	1-Jun-17	3.29%	+240 bp
CIBC 5.35% Ser. 33	CM.PR.K	Pfd-2H	P-2	\$25.43	\$1.338	5.26%	31-Jul-14	1.79%	+218 bp
CIBC 6.5% Ser. 35	CM.PR.L	Pfd-2H	P-2	\$25.20	\$1.625	6.45%	28-Apr-14	3.05%	+447 bp
CIBC 6.5% Ser. 37	CM.PR.M	Pfd-2H	P-2	\$25.41	\$1.625	6.40%	28-Jul-14	3.07%	+433 bp
CU Inc. 3.8% Ser. 4	CIU.PR.C	Pfd-2H	P-2 (L)	\$19.87	\$0.950	4.78%	1-Jun-16	14.46%	+136 bp
CU Inc. 6.7% Ser. 2	CIU.PR.B	Pfd-2H	P-2 (L)	\$25.65	\$1.675	6.53%	1-Jun-14	2.04%	+481 bp
Emera Inc. 4.10% Ser C	EMA.PR.C	Pfd-3H /*	P-2 (L)	\$24.75	\$1.025	4.14%	15-Aug-18	4.52%	+265 bp
Emera Inc. 4.40% Ser A	EMA.PR.A	Pfd-3H /*	P-2 (L)	\$20.85	\$1.100	5.28%	15-Aug-15	17.31%	+184 bp
Enbridge Inc. 4.00% Ser 3	ENB.PR.Y	Pfd-2L	P-2	\$23.00	\$1.000	4.35%	1-Sep-19	5.79%	+238 bp
Enbridge Inc. 4.00% Ser B	ENB.PR.B	Pfd-2L	P-2	\$24.15	\$1.000	4.14%	1-Jun-17	5.29%	+240 bp
Enbridge Inc. 4.00% Ser D	ENB.PR.D	Pfd-2L	P-2	\$23.34	\$1.000	4.28%	1-Mar-18	5.98%	+237 bp
Enbridge Inc. 4.00% Ser F	ENB.PR.F	Pfd-2L	P-2	\$23.76	\$1.000	4.21%	1-Jun-18	5.42%	+251 bp
Enbridge Inc. 4.00% Ser H	ENB.PR.H	Pfd-2L	P-2	\$22.65	\$1.000	4.42%	1-Sep-18	6.51%	+212 bp
Enbridge Inc. 4.00% Ser N	ENB.PR.N	Pfd-2L	P-2	\$24.45	\$1.000	4.09%	1-Dec-18	4.63%	+265 bp
Enbridge Inc. 4.00% Ser P	ENB.PR.P	Pfd-2L	P-2	\$23.61	\$1.000	4.24%	1-Mar-19	5.37%	+250 bp
Enbridge Inc. 4.00% Ser R	ENB.PR.T	Pfd-2L	P-2	\$23.75	\$1.000	4.21%	1-Jun-19	5.19%	+250 bp
Enbridge Inc. 4.40% Ser 7	ENB.PR.J	Pfd-2L	P-2	\$25.15	\$1.100	4.37%	1-Mar-19	4.37%	+257 bp
Enbridge Inc. US 4.00% Ser 1	ENB.PR.V	Pfd-2L	P-2	\$23.51	\$1.000	4.25%	1-Jun-18	5.69%	+314 bp
Enbridge Inc. US 4.00% Ser J	ENB.PR.U	Pfd-2L	P-2	\$23.42	\$1.000	4.27%	1-Jun-17	6.28%	+305 bp
Enbridge Inc. US 4.00% Ser L	ENB.PF.U	Pfd-2L	P-2	\$23.10	\$1.000	4.33%	1-Sep-17	6.54%	+315 bp
Enbridge Inc. US 4.40% Ser 5	ENB.PF.V	Pfd-2L	P-2	\$23.31	\$1.100	4.72%	1-Mar-19	6.09%	+282 bp
Fortis Inc 3.883% Ser. G*	FTS.PR.G	Pfd-2L /*	P-2	\$24.13	\$0.971	4.02%	1-Sep-18	4.86%	+213 bp
Fortis Inc 4.00% Ser. K	FTS.PR.K	Pfd-2L /*	P-2	\$24.42	\$1.000	4.10%	1-Mar-19	4.86%	+205 bp
Fortis Inc 4.25% Ser. H	FTS.PR.H	Pfd-2L /*	P-2	\$21.40	\$1.063	4.96%	1-Jun-15	16.79%	+145 bp
Great-West Lifeco Inc. 3.65% Ser N	GWO.PR.N	Pfd-1L	P-1 (L)	\$21.29	\$0.913	4.29%	31-Dec-15	12.48%	+130 bp
HSBC Bank Canada 6.60% Ser E	HSB.PR.E	Pfd-2	P-1 (L)	\$25.50	\$1.650	6.47%	30-Jun-14	2.91%	+485 bp
Husky Energy Inc 4.45% Ser 1	HSE.PR.A	Pfd-2L	P-2 (L)	\$22.85	\$1.113	4.87%	31-Mar-16	8.93%	+173 bp
Industrial Alliance 4.30% Ser G	IAG.PR.G	Pfd-2H	P-1 (L)	\$25.59	\$1.075	4.20%	30-Jun-17	3.64%	+285 bp
Intact Financial Corp 4.20% Ser 1	IFC.PR.A	Pfd-2L	N/A	\$24.25	\$1.050	4.33%	30-Dec-17	5.11%	+172 bp
Intact Financial Corp 4.20% Ser 3	IFC.PR.C	Pfd-2L	N/A	\$25.76	\$1.050	4.08%	30-Sep-16	3.11%	+266 bp
Manulife Corp 3.80% Ser 13	MFC.PR.K	Pfd-2H	P-2 (H)	\$24.73	\$0.950	3.84%	19-Sep-18	4.13%	+222 bp
Manulife Corp 4.00% Ser 11	MFC.PR.J	Pfd-2H	P-2 (H)	\$25.28	\$1.000	3.96%	19-Mar-18	3.80%	+261 bp
Manulife Corp 4.20% Ser 3	MFC.PR.F	Pfd-2H	P-2 (H)	\$21.87	\$1.050	4.80%	19-Jun-16	10.30%	+141 bp
Manulife Corp 4.40% Ser 5	MFC.PR.G	Pfd-2H	P-2 (H)	\$25.92	\$1.100	4.24%	19-Dec-16	3.21%	+290 bp
Manulife Corp 4.40% Ser 9	MFC.PR.I	Pfd-2H	P-2 (H)	\$25.91	\$1.100	4.25%	19-Sep-17	3.45%	+286 bp
Manulife Corp 4.60% Ser 7	MFC.PR.H	Pfd-2H	P-2 (H)	\$25.86	\$1.150	4.45%	19-Mar-17	3.58%	+313 bp
Manulife Corp 5.60% Ser 1	MFC.PR.E	Pfd-2H	P-2 (H)	\$25.43	\$1.400	5.51%	19-Sep-14	3.71%	+323 bp
Manulife Corp 6.60% Ser 4	MFC.PR.D	Pfd-2H	P-2 (H)	\$25.54	\$1.650	6.46%	19-Jun-14	2.74%	+456 bp
National 3.80% Ser. 28	NA.PR.Q	Pfd-2	P-2	\$25.46	\$0.950	3.73%	15-Nov-17	3.47%	+243 bp
National 6.6% Ser. 24 (redeem)	NA.PR.O	Pfd-2	P-2	\$25.37	\$1.650	6.50%	15-Feb-14	2.36%	+463 bp
National 6.6% Ser. 26 (redeem)	NA.PR.P	Pfd-2	P-2	\$25.35	\$1.650	6.51%	15-Feb-14	3.47%	+479 bp
Power Financial Corp 4.20% Ser T	PWF.PR.T	Pfd-1L	P-1 (L)	\$25.40	\$1.050	4.13%	31-Jan-19	3.94%	+237 bp
Power Financial Corp 4.40% Ser P	PWF.PR.P	Pfd-1L	P-1 (L)	\$22.77	\$1.100	4.83%	30-Jan-16	9.85%	+160 bp
Power Financial Corp 6.00% Ser M (redeem)	PWF.PR.M	Pfd-1L	P-1 (L)	\$25.31	\$1.500	5.93%	31-Jan-14	8.60%	+320 bp
Royal Bank 5.00% Ser. AJ	RY.PR.J	Pfd-2H	P-1 (L)	\$25.34	\$1.250	4.93%	24-Feb-14	-1.13%	+193 bp
Royal Bank 5.60% Ser. AL	RY.PR.L	Pfd-2H	P-1 (L)	\$25.33	\$1.400	5.53%	24-Feb-14	0.82%	+267 bp
Royal Bank 6.10% Ser. AX	RY.PR.Y	Pfd-2H	P-1 (L)	\$25.98	\$1.525	5.87%	24-Nov-14	2.53%	+413 bp

* Holders do not have the option of converting to a floating rate preferred on redemption date

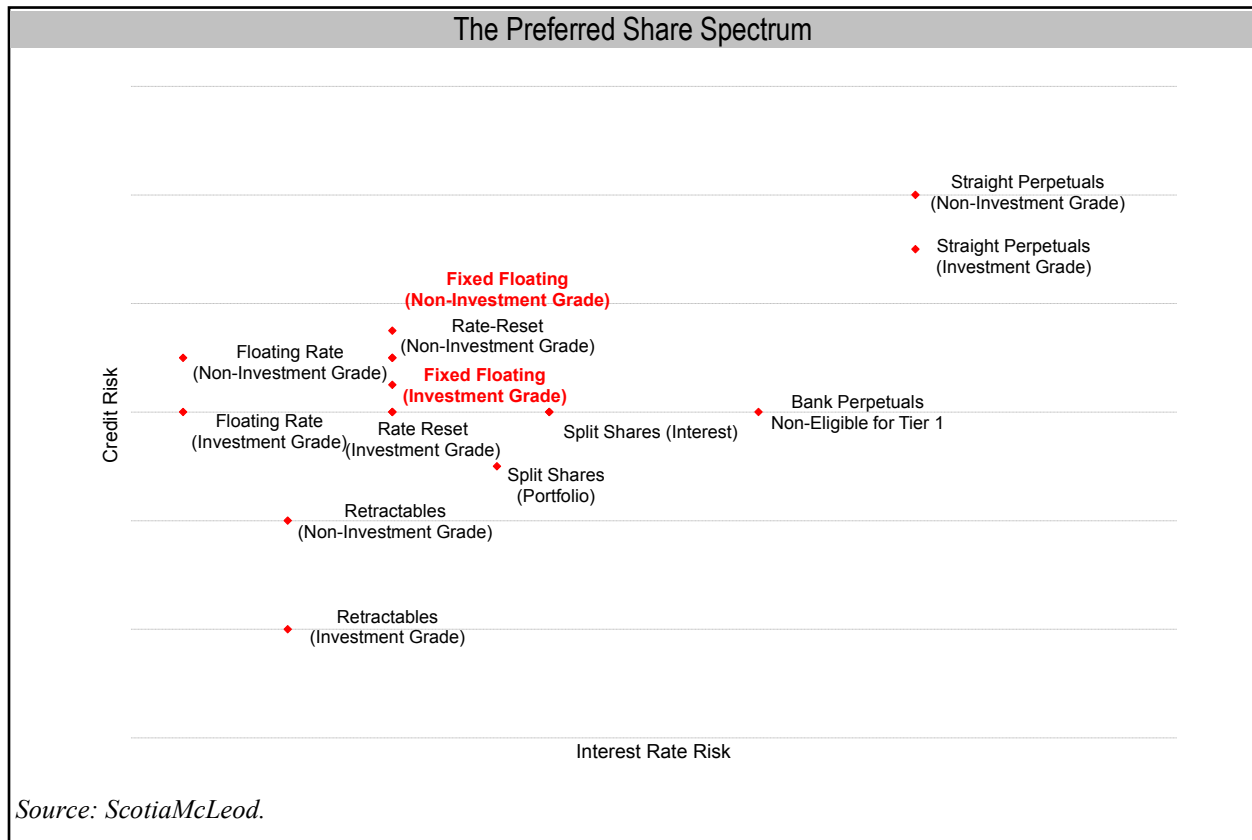
Source: Bloomberg, ScotiaMcLeod.

Rate Reset Perpetual Preferred Share Table

Issuer Investment Grade (P1-P2)	RATING			Price Dec 31/13	Div	Current Yield	REDEMPTION		
	TSE Symbol	DBRS	S&P				Reset/Call Date	Yield to Reset	Reset Rate (5 - YR CAN)
Royal Bank 6.25% Ser. AN (redeem)	RY.PR.N	Pfd-2H	P-1 (L)	\$25.31	\$1.563	6.17%	24-Feb-14	3.30%	+350 bp
Royal Bank 6.25% Ser. AP (redeem)	RY.PR.P	Pfd-2H	P-1 (L)	\$25.33	\$1.563	6.17%	24-Feb-14	2.47%	+419 bp
Royal Bank 6.25% Ser. AR (redeem)	RY.PR.R	Pfd-2H	P-1 (L)	\$25.32	\$1.563	6.17%	24-Feb-14	2.89%	+450 bp
Royal Bank 6.25% Ser. AT	RY.PR.T	Pfd-2H	P-1 (L)	\$25.77	\$1.563	6.06%	24-Aug-14	2.66%	+406 bp
Royal Bank 6.25% Ser. AV	RY.PR.X	Pfd-2H	P-1 (L)	\$25.78	\$1.563	6.06%	24-Aug-14	2.59%	+442 bp
Sun Life Financial Inc. 3.90% Ser. 10R	SLF.PR.H	Pfd-2H	P-2 (H)	\$25.00	\$0.975	3.90%	30-Sep-16	3.98%	+217 bp
Sun Life Financial Inc. 4.25% Ser. 12R	SLF.PR.I	Pfd-2H	P-2 (H)	\$25.98	\$1.063	4.09%	31-Dec-16	2.94%	+273 bp
Sun Life Financial Inc. 4.35% Ser. 8R	SLF.PR.G	Pfd-2H	P-2 (H)	\$22.12	\$1.088	4.92%	30-Jun-15	13.47%	+141 bp
Sun Life Financial Inc. 6.00% Ser. 6R	SLF.PR.F	Pfd-2H	P-2 (H)	\$25.50	\$1.500	5.88%	30-Jun-14	2.24%	+379 bp
TD Bank 3.371% Ser. S	TD.PR.S	Pfd-2H	P-1 (L)	\$25.20	\$0.843	3.34%	30-Jul-18	3.36%	+160 bp
TD Bank 3.5595% Ser. Y	TD.PR.Y	Pfd-2H	P-1 (L)	\$25.20	\$0.890	3.53%	30-Oct-18	3.56%	+168 bp
TD Bank 5.00% Ser. AA (redeem)	TD.PR.A	Pfd-2H	P-1 (L)	\$25.27	\$1.250	4.95%	31-Jan-14	5.61%	+196 bp
TD Bank 5.60% Ser. AC (redeem)	TD.PR.C	Pfd-2H	P-1 (L)	\$25.31	\$1.400	5.53%	31-Jan-14	5.27%	+274 bp
TD Bank 6.25% Ser. AE	TD.PR.E	Pfd-2H	P-1 (L)	\$25.62	\$1.563	6.10%	30-Apr-14	2.33%	+437 bp
TD Bank 6.25% Ser. AG	TD.PR.G	Pfd-2H	P-1 (L)	\$25.63	\$1.563	6.10%	30-Apr-14	2.18%	+438 bp
TD Bank 6.25% Ser. AI	TD.PR.I	Pfd-2H	P-1 (L)	\$25.74	\$1.563	6.07%	31-Jul-14	3.25%	+415 bp
TD Bank 6.25% Ser. AK	TD.PR.K	Pfd-2H	P-1 (L)	\$25.82	\$1.563	6.05%	31-Jul-14	2.64%	+433 bp
TransCanada Corp 4.00% Ser 3	TRP.PR.B	Pfd-2L	P-2	\$20.37	\$1.000	4.91%	30-Jun-15	19.20%	+128 bp
TransCanada Corp 4.00% Ser 7	TRP.PR.D	Pfd-2L	P-2	\$25.11	\$1.000	3.98%	30-Apr-19	3.89%	+238 bp
TransCanada Corp 4.40% Ser 5	TRP.PR.C	Pfd-2L	P-2	\$21.75	\$1.100	5.06%	30-Jan-16	11.62%	+154 bp
TransCanada Corp 4.60% Ser 1	TRP.PR.A	Pfd-2L	P-2	\$23.72	\$1.150	4.85%	31-Dec-14	10.65%	+192 bp
Valener Inc. 4.35% Ser A	VNR.PR.A	Pfd-2L	P-2 (L)	\$25.32	\$1.088	4.30%	15-Oct-17	4.31%	+281 bp
Non-Investment Grade (P3-P4)									
Aimia (Group Aeroplan) 6.50% Ser 1	AIM.PR.A	Pfd-3	P-3	\$25.70	\$1.625	6.32%	31-Mar-15	4.40%	+375 bp
Algonquin Power 4.50% Ser A	AQN.PR.A	Pfd-3L	P-3H	\$20.94	\$1.125	5.37%	31-Dec-18	8.63%	+294 bp
AltaGas Ltd 5.00% Ser A	ALA.PR.A	Pfd-3	P-3 (H)	\$25.32	\$1.250	4.94%	30-Sep-15	4.39%	+266 bp
AltaGas Ltd 5.00% Ser E	ALA.PR.E	Pfd-3	P-3 (H)	\$25.40	\$1.250	4.92%	31-Dec-18	4.75%	+317 bp
AltaGas Ltd US 4.40% Ser C	ALA.PR.U	Pfd-3	P-3 (H)	\$24.87	\$1.100	4.42%	30-Sep-17	4.62%	+358 bp
Artis REIT 4.75% Series E (ROC)	AX.PR.E	Pfd-3L	N/A	\$19.10	\$1.188	6.22%	30-Sep-18	11.38%	+330 bp
Artis REIT 5.00% Series G (ROC)	AX.PR.G	Pfd-3L	N/A	\$19.49	\$1.250	6.41%	31-Jul-19	10.58%	+313 bp
Artis REIT 5.25% Series A (ROC)	AX.PR.A	Pfd-3L	N/A	\$23.55	\$1.313	5.57%	30-Sep-17	7.14%	+406 bp
Artis REIT 5.25% US Series C (ROC)	AX.PR.U	Pfd-3L	N/A	\$22.60	\$1.313	5.81%	31-Mar-18	8.05%	+446 bp
Atlantic Power 7.00% Ser 2	AZP.PR.B	Pfd-5H	P-5	\$12.54	\$1.750	13.96%	31-Dec-14	92.14%	+418 bp
Bell Aliant Pref Equity. 4.25% Ser E	BAF.PR.E	Pfd-3	P-3 (H)	\$21.60	\$1.063	4.92%	30-Sep-18	7.80%	+264 bp
Bell Aliant Pref Equity. 4.55% Ser C	BAF.PR.C	Pfd-3	P-3 (H)	\$24.37	\$1.138	4.67%	31-Mar-17	5.50%	+309 bp
Bell Aliant Pref Equity. 4.85% Ser A	BAF.PR.A	Pfd-3	P-3 (H)	\$20.74	\$1.213	5.85%	31-Mar-16	14.16%	+209 bp
Birchcliff Energy Ltd 8.00% Ser A	BIR.PR.A	N/A	N/A	\$25.50	\$2.000	7.84%	30-Sep-17	7.51%	+683 bp
Brookfield Prop 4.60% Ser. T	BPO.PR.T	Pfd-3	P-3	\$22.91	\$1.150	5.02%	31-Dec-18	6.65%	+316 bp
Brookfield Prop 5.10% Ser. R	BPO.PR.R	Pfd-3	P-3	\$24.85	\$1.275	5.13%	30-Sep-16	5.45%	+348 bp
Brookfield Prop 5.15% Ser. P	BPO.PR.P	Pfd-3	P-3	\$23.50	\$1.288	5.48%	31-Mar-17	7.38%	+300 bp
Brookfield Prop 6.15% Ser. N	BPO.PR.N	Pfd-3	P-3	\$25.20	\$1.537	6.10%	30-Jun-16	5.95%	+307 bp
Brookfield Prop 6.75% Ser. L	BPO.PR.L	Pfd-3	P-3	\$25.44	\$1.680	6.60%	30-Sep-14	4.72%	+417 bp
Brookfield Renewable Energy 4.40% Ser 3	BRF.PR.C	Pfd-3H	P-3 (H)	\$22.22	\$1.100	4.95%	31-Jul-19	7.06%	+294 bp
Brookfield Renewable Energy 5.25% Ser 1	BRF.PR.A	Pfd-3H	P-3 (H)	\$23.05	\$1.313	5.69%	30-Apr-15	13.02%	+262 bp
Canaccord Financial Inc. 5.50% Ser A	CF.PR.A	Pfd-3L	N/A	\$17.72	\$1.375	7.76%	30-Sep-16	19.85%	+321 bp
Canaccord Financial Inc. 5.75% Ser C	CF.PR.C	Pfd-3L	N/A	\$18.59	\$1.438	7.73%	30-Jun-17	15.64%	+403 bp
Canadian Western Bank 7.25% Ser. 3	CWB.PR.A	Pfd-3H	N/A	\$25.71	\$1.813	7.05%	30-Apr-14	2.83%	+500 bp
Capital Power Corp 4.50% Ser 5	CPX.PR.E	Pfd-3L	P-3	\$20.43	\$1.125	5.51%	30-Jun-18	9.68%	+315 bp
Capital Power Corp 4.60% Ser 1	CPX.PR.A	Pfd-3L	P-3	\$18.00	\$1.150	6.39%	31-Dec-15	23.02%	+217 bp
Capital Power Corp 4.60% Ser 3	CPX.PR.C	Pfd-3L	P-3	\$20.80	\$1.150	5.53%	31-Dec-18	8.90%	+323 bp
Capstone Infrastructure 5.00% Ser B	CSE.PR.A	N/A	P-4 (H)	\$15.31	\$1.250	8.16%	31-Jul-17	21.37%	+271 bp
Co-operators Ser. D 7.25%	CCS.PR.D	Pfd-3H	P-2	\$25.35	\$1.810	7.14%	30-Jun-14	5.00%	+521 bp
Dundee Corp 6.75% Ser 2	DC.PR.B	NR	NR	\$25.18	\$1.688	6.70%	30-Sep-14	6.25%	+410 bp
Element Financial Corp 6.60% Ser A	EFN.PR.A	N/A	N/A	\$25.09	\$1.650	6.58%	30-Dec-18	6.60%	+441 bp
Equitable Group Inc 7.25% Ser 1	EQB.PR.A	N/A	N/A	\$25.08	\$1.813	7.23%	30-Sep-14	7.38%	+453 bp
Fairfax Financial Hld 4.75% Ser E	FFH.PR.E	Pfd-3	P-3	\$18.61	\$1.188	6.38%	31-Mar-15	31.58%	+216 bp
Fairfax Financial Hld 5.00% Ser G	FFH.PR.G	Pfd-3	P-3	\$20.69	\$1.250	6.04%	30-Sep-15	17.14%	+256 bp
Fairfax Financial Hld 5.00% Ser I	FFH.PR.I	Pfd-3	P-3	\$21.95	\$1.250	5.69%	31-Dec-15	12.31%	+285 bp
Fairfax Financial Hld 5.00% Ser K	FFH.PR.K	Pfd-3	P-3	\$24.25	\$1.250	5.15%	31-Mar-17	6.14%	+351 bp
Fairfax Financial Hld 5.75% Ser C	FFH.PR.C	Pfd-3	P-3	\$24.50	\$1.438	5.87%	31-Dec-14	8.32%	+315 bp
First National Financial Corp 4.65% Ser 1	FN.PR.A	Pfd-3	N/A	\$15.81	\$1.163	7.35%	31-Mar-16	27.73%	+207 bp
GMP Capital Inc. 5.50% Ser B	GMP.PR.B	Pfd-3L	N/A	\$17.75	\$1.375	7.75%	31-Mar-16	22.85%	+289 bp
Innervex Renewable Energy Inc 5.00%	INE.PR.A	Pfd-4H	P-3	\$19.54	\$1.250	6.40%	15-Jan-16	18.42%	+279 bp
Laurentian Bank 4.00% Ser 11	LB.PR.F	Pfd-3	P-3 (H)	\$25.62	\$1.000	3.90%	15-Dec-17	3.42%	+260 bp
Northland Power Inc. 5.00% Ser 3	NPI.PR.C	N/A	P-3 (H)	\$23.74	\$1.250	5.27%	31-Dec-17	6.54%	+346 bp
Northland Power Inc. 5.25% Ser 1	NPI.PR.A	N/A	P-3 (H)	\$20.44	\$1.310	6.41%	30-Sep-15	18.22%	+280 bp
Pembina Pipeline 4.25% Ser 1	PPL.PR.A	Pfd-3	P-3 (H)	\$24.26	\$1.063	4.38%	1-Dec-18	5.07%	+247 bp
Pembina Pipeline 4.70% Ser 3	PPL.PR.C	Pfd-3	P-3 (H)	\$25.15	\$1.175	4.67%	1-Mar-19	4.71%	+260 bp
Riocan REIT 4.70% Series C (ROC)	REI.PR.C	Pfd-3H	P-3 (H)	\$25.00	\$1.175	4.70%	30-Jun-17	4.78%	+318 bp

Source: Bloomberg, ScotiaMcLeod.

Fixed Floating Rate Preferred Shares



Description: This class of preferred share pays a fixed dividend until the reset date, which is typically also the call date. On that date, and every reset date thereafter, if the preferred share is not called, the holder has two options.

1. Locking in a fixed dividend until the next reset date. This rate will be determined by the issuer and will be announced at least 30-days before the reset date.
2. Exchanging to a floating rate preferred share. The floating rate is either a monthly or quarterly dividend depending on the issue and Prime is typically used as the reference rate for the dividend payments.

Investors have the option at each reset date, if the issue is not called, of switching back and forth between the two dividend options.

Redemption: Most fixed floaters are redeemable at the option of the issuer on the various call dates which coincide with the reset date when the investor may choose either a fixed or floating dividend.

Advantages: These issues are recommended for income investors who value the option of being able to re-set the dividend every five years to match their interest rate outlook. However, the new “rate reset” preferred shares now offer more transparency as the reset spread is set at issuance and known versus the fixed-floating rate preferred reset spread which is only announced by the issuer no less than 30 days before the reset date.

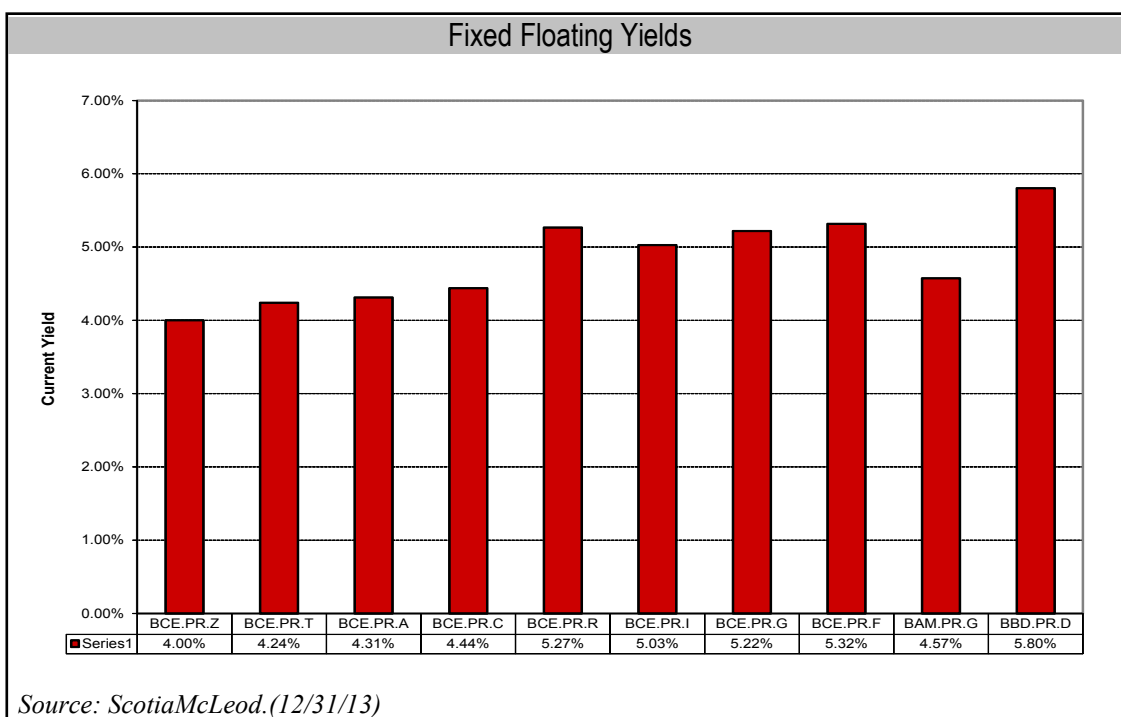
Risks: The main risk of investing in fixed floating rate preferred shares is that they are perpetual and subject to interest rate risk. Additionally, the issuer has a great degree of flexibility when resetting the fixed dividend rate.

What's New: BCE Inc.'s Series AC preferred shares (BCE.PR.C) had the dividend reset at 3.55% from the previous 4.60% as of March 1st, 2013. BCE. Inc. was required to pay an annual dividend rate greater than or equal to the 80% Government of Canada 5-year bond yield. Due to the new lower dividend rate, 48% of the holders moved into the floating rate series (BCE.PR.D) which has a current dividend rate of 3.00%.

Sector Trends: This type of preferred share underperformed due to the low dividend rates and the move in underlying interest rates during 2013. They also tend to be more illiquid than other types of preferred shares as this sector only makes up 2.86% of the entire Canadian preferred share market. The trends will likely be very similar in 2014, with limited upside expected in this sector.

Fixed Floater Yield Commentary

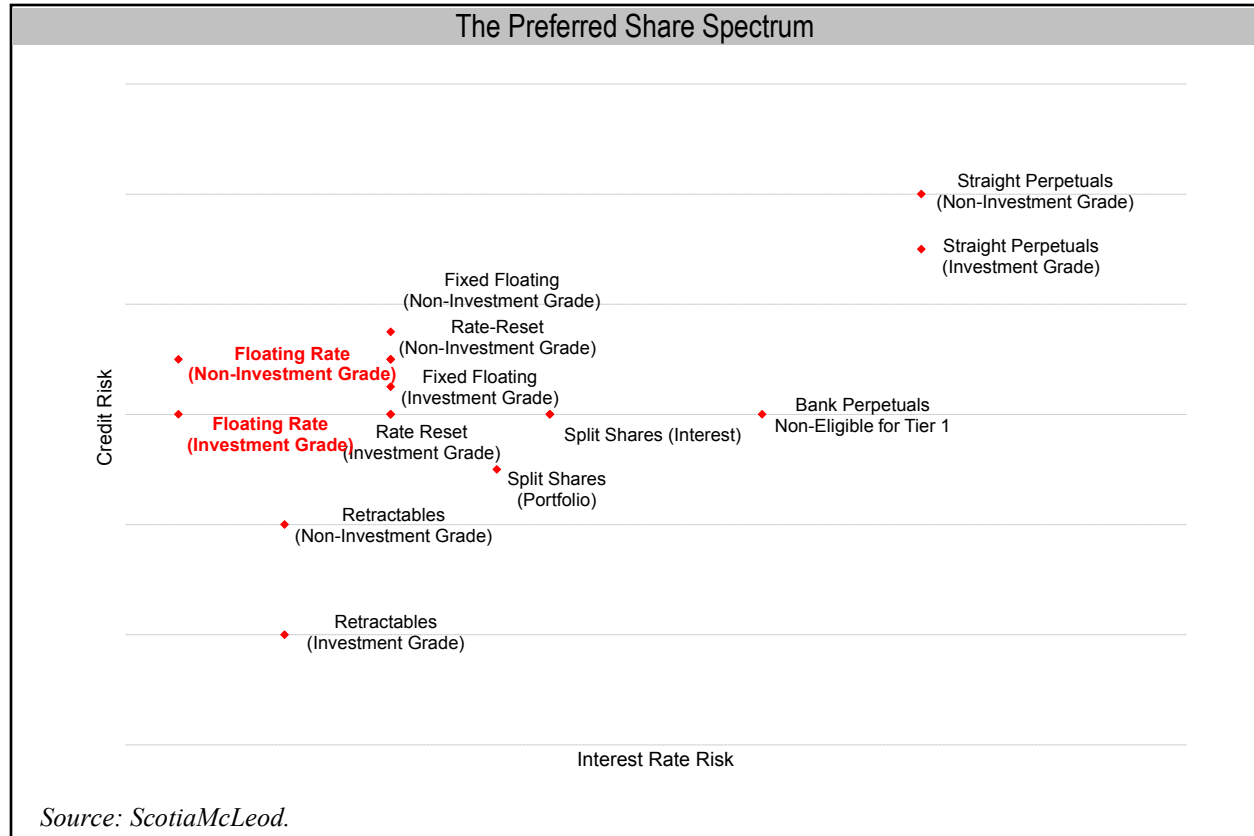
This chart highlights the current yield as of December 31, 2013 of all the outstanding fixed floating preferred shares. Timing is an important consideration in purchasing these shares. Please contact your ScotiaMcLeod advisor for more information on these issues.



Issuer Investment Grade (P1-P2)	TSE Symbol	RATING		Price Dec 31/13	Div	Current Yield	REDEMPTION		
		DBRS	S&P				Reset Date	Yield to Reset	Reset Rate
BCE 3.152% Ser. Z	BCE.PR.Z	Pfd-3H	P-2 (L)	\$19.75	\$0.790	4.00%	1-Dec-17	9.89%	>= 80% 5-yr CAN
BCE 3.393% Ser. T	BCE.PR.T	Pfd-3H	P-2 (L)	\$20.00	\$0.848	4.24%	1-Nov-16	11.89%	>= 80% 5-yr CAN
BCE 3.45% Ser. AA	BCE.PR.A	Pfd-3H	P-2 (L)	\$20.00	\$0.863	4.31%	1-Sep-17	10.30%	>= 80% 5-yr CAN
BCE 3.55% Ser. AC	BCE.PR.C	Pfd-3H	P-2 (L)	\$20.00	\$0.888	4.44%	1-Mar-18	9.64%	>= 80% 5-yr CAN
BCE 4.49% Ser. R	BCE.PR.R	Pfd-3H	P-2 (L)	\$21.31	\$1.123	5.27%	1-Dec-15	14.01%	>= 80% 5-yr CAN
BCE Inc. 4.15% Ser. AI	BCE.PR.I	Pfd-3H	P-2 (L)	\$20.64	\$1.038	5.03%	1-Aug-16	12.20%	>= 80% 5-yr CAN
BCE Inc. 4.50% Ser. AG	BCE.PR.G	Pfd-3H	P-2 (L)	\$21.56	\$1.125	5.22%	1-May-16	11.37%	>= 80% 5-yr CAN
BCE Inc. 4.541% Ser. AF	BCE.PR.F	Pfd-3H	P-2 (L)	\$21.35	\$1.135	5.32%	1-Feb-15	20.42%	>= 80% 5-yr CAN
Brookfield Asset 3.80% S 9	BAM.PR.G	Pfd-2L	P-2	\$20.77	\$0.950	4.57%	1-Nov-16	11.32%	>= 80% 5-yr CAN
Non-Investment Grade (P3-P4)									
Bombardier 3.134% Ser.3	BBD.PR.D	NR	P-4	\$13.50	\$0.784	5.80%	31-Jul-17	22.73%	>= 80% 5-yr CAN

Source: Bloomberg, ScotiaMcLeod.

Floating Rate Preferred Shares



Description: Floating rate preferred shares pay dividends on a quarterly (and in some cases monthly) basis. The dividends float in relation to a reference rate, usually the Prime rate or 90-day T-Bill although some may have a “floor” or minimum dividend. Another interesting feature many floating rate preferreds have is a ratcheting mechanism which raises or lowers the dividend on a monthly basis depending whether or not the preferred share trades within a specified price band.

Redemption: Shares are redeemable at the issuer’s option and holders do not have a retraction feature, which makes them perpetual in nature. Most of these shares are callable anytime at a set call price which is indicated in the table on the following page.

Advantages: Some of the issues trade below their par value due to low dividends or because the issuer has a poor credit rating. For the preferred share investor this may provide an opportunity for capital gains if the investor is expecting short term interest rates to move as this type of preferred share should perform well in a rising interest rate environment as the dividend will begin increasing as Prime or 90-Day T-bill rates increase.

Risks: The risks surrounding this class of shares include credit risk, such that if the issuer has any difficulties paying the dividend, or if the issuer is downgraded by a rating agency. In addition, if interest rates are expected to decline, the monthly/quarterly income (dividend payments) may be reduced. Liquidity is another risk with this type of preferred share as there are often not a large number of shares outstanding causing prices to be volatile when holding this type of preferred share.

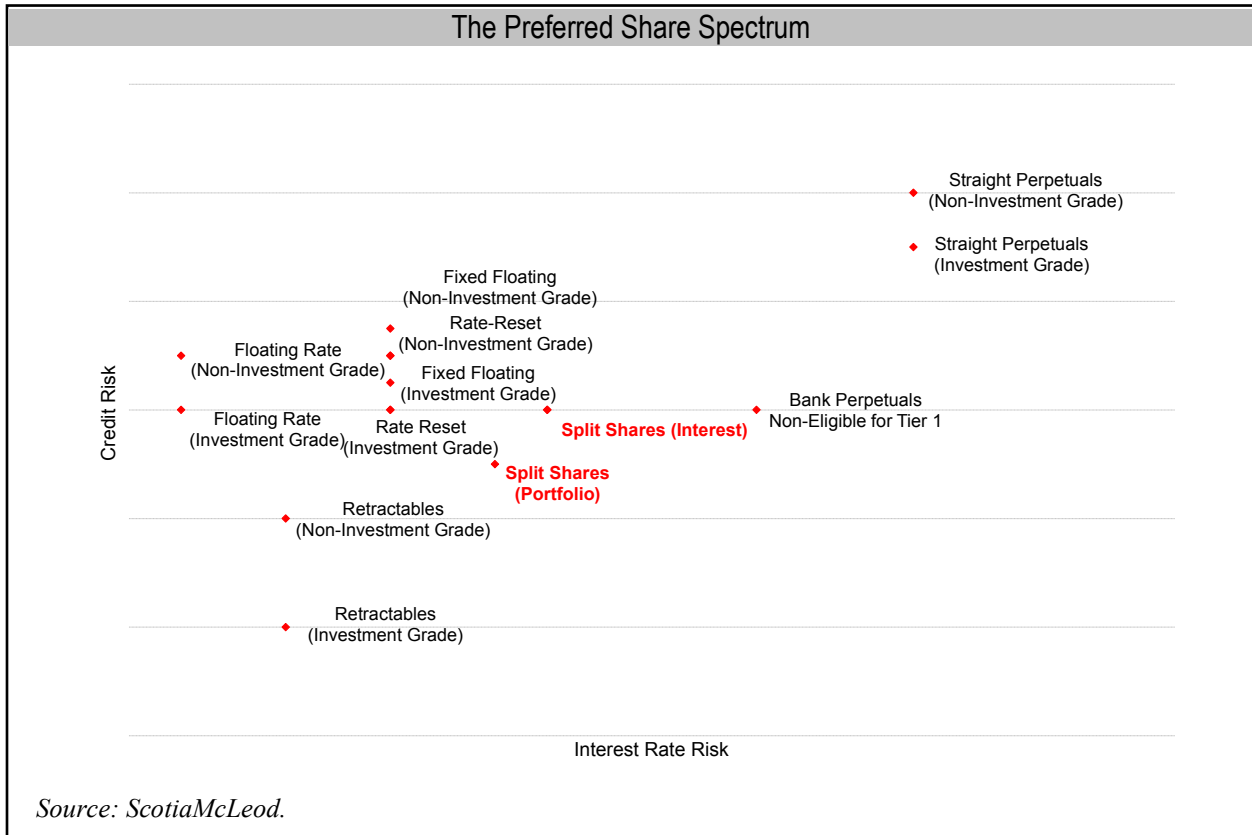
What's New: There were five new bank floating rate preferred shares created during 2013, as holders of rate resets which were extended, opted to convert into a floating rate preferred share. On average approximately, 45% of holders opted to convert into the various floating rate securities. The new bank floating rate preferred shares pay a quarterly dividend based on the 90-day T-Bill rate + a pre-determined spread. Overall, the bank floating rate preferred shares traded above par throughout the year as it is expected that these securities will be redeemed prior to 2022 due to Basel III regulations.

Sector Trends: This sector was the top performer in the first quarter of 2013, yet demand for non-bank floating rate preferred shares waned as the expectation for higher short term rates have been extended. It is now the view that the overnight rate in Canada will remain at 1.00% until late 2015 or even into 2016. These shares tend to be relatively illiquid yet should perform well when short-term interest rates are rising as the dividends will increase as rates move. Going forward, the floating rate sector of the market is expected to grow in size as additional rate resets get extended past the initial reset date and holders opt to convert into the floating rate series.

Floating Rate Preferred Share												
Issuer	RATING				Exp Div Based on Last Pmt	Current Yield	Payment Frequency	Floating Rate	Reset Date	Convertible Into	REDEMPTION	
	TSE Symbol	DBRS	S&P	Price Dec 31/13							Call Date	Call Price
Investment Grade (P1-P2)												
Bank of Montreal Ser. 17	BMO.PR.R	Pfd-2H	P-2	\$25.17	\$0.647	2.65%	Quarterly	90-Day T-Bill +1.65%	25-Aug-18	BMO.PR.M	ANYTIME	25.50
Bank of Nova Scotia Ser. 19	BNS.PR.A	Pfd-2H	P-2 (H)	\$25.91	\$0.789	2.97%	Quarterly	90-Day T-Bill +2.05%	26-Apr-18	BNS.PR.P	ANYTIME	25.50
Bank of Nova Scotia Ser. 21	BNS.PR.B	Pfd-2H	P-2 (H)	\$25.17	\$0.675	2.67%	Quarterly	90-Day T-Bill +1.70%	26-Oct-18	BNS.PR.Q	ANYTIME	25.50
BCE Inc. Ser. AB	BCE.PR.B	Pfd-3H	P-2 (L)	\$21.42	\$0.750	3.50%	Monthly	50% < 100% of Prime	1-Sep-17	BCE.PR.A	ANYTIME	25.50
BCE Inc. Ser. AD	BCE.PR.D	Pfd-3H	P-2 (L)	\$21.33	\$0.750	3.52%	Monthly	50% < 100% of Prime	1-Mar-18	BCE.PR.C	ANYTIME	25.50
BCE Inc. Ser. AJ	BCE.PR.J	Pfd-3H	P-2 (L)	\$21.45	\$0.750	3.50%	Monthly	50% < 100% of Prime	1-Aug-16	BCE.PR.I	ANYTIME	25.50
BCE Inc. Ser. S	BCE.PR.S	Pfd-3H	P-2 (L)	\$21.50	\$0.750	3.49%	Monthly	50% < 100% of Prime	1-Nov-16	BCE.PR.T	ANYTIME	25.50
BCE Inc. Ser. Y	BCE.PR.Y	Pfd-3H	P-2 (L)	\$21.59	\$0.750	3.47%	Monthly	50% < 100% of Prime	1-Dec-17	BCE.PR.Z	ANYTIME	25.50
BCE Inc. Series AE	BCE.PR.E	Pfd-3H	P-2 (L)	\$21.00	\$0.750	3.57%	Monthly	50% < 100% of Prime	1-Feb-15	BCE.PR.F	ANYTIME	25.50
BCE Inc. Series AH	BCE.PR.H	Pfd-3H	P-2 (L)	\$20.96	\$0.750	3.58%	Monthly	50% < 100% of Prime	1-May-16	BCE.PR.G	ANYTIME	25.50
Brookfield Asset A Ser. 4	BAM.PR.C	Pfd-2L	P-2	\$17.90	\$0.525	2.93%	Quarterly	70% of Prime	N/A	N/A	ANYTIME	25.00
Brookfield Asset A Ser. 2	BAM.PR.B	Pfd-2L	P-2	\$17.84	\$0.525	2.94%	Quarterly	70% of Prime	N/A	N/A	ANYTIME	25.00
Brookfield Asset A Ser. 8	BAM.PR.E	Pfd-2L	P-2	\$24.20	\$0.750	3.10%	Monthly	50% < 100% of Prime	1-Nov-16	BAM.PR.G	ANYTIME	25.00
Brookfield Asset A Ser. 13	BAM.PR.K	Pfd-2L	P-2	\$17.84	\$0.525	2.94%	Quarterly	70% of Prime	N/A	N/A	ANYTIME	25.00
Brookfield Asset A Ser. 14	BAM.PR.L	Pfd-2L	P-2	\$100.10	\$1.926	1.92%	Monthly	63% of Prime	N/A	N/A	ANYTIME	100.00
Power Corp. 1986 Series	POW.PR.F	Pfd-2H	P-2 (H)	\$38.00	\$1.050	2.76%	Quarterly	70% of Prime	N/A	N/A	ANYTIME	50.00
Power Finl. Ser. A	PWF.PR.A	Pfd-1L	P-1 (L)	\$21.85	\$0.522	2.39%	Quarterly	70% of Prime	N/A	N/A	ANYTIME	25.00
TD Bank Ser T	TD.PR.T	Pfd-2H	P-1 (L)	\$25.18	\$0.656	2.61%	Quarterly	90-Day T-Bill +1.60%	25-Aug-18	TD.PR.S	ANYTIME	25.50
TD Bank Ser Z	TD.PR.Z	Pfd-2H	P-1 (L)	\$25.17	\$0.667	2.65%	Quarterly	90-Day T-Bill +1.68%	30-Oct-18	TD.PR.Y	ANYTIME	25.50
Thomson Reuters Ser. II	TRI.PR.B	Pfd-3H	P-2 (L)	\$18.22	\$0.522	2.86%	Quarterly	70% of Prime	N/A	N/A	ANYTIME	25.00
Non-Investment Grade (P3-P4)												
Bombardier Ser. 2	BBD.PR.B	NR	P-4	\$13.89	\$0.750	5.40%	Monthly	50% < 100% of Prime	1-Aug-17	BBD.PR.D	1-Aug-17	25.00
Brookfield Office Prop Ser V	BPO.PR.X	Pfd-3	P-3	\$13.15	\$0.522	3.97%	Quarterly	70% of Prime	N/A	N/A	ANYTIME	25.00
Brookfield Office Prop Ser W	BPO.PR.W	Pfd-3	P-3	\$13.10	\$0.522	3.98%	Quarterly	70% of Prime	N/A	N/A	ANYTIME	25.00
Brookfield Office Prop Ser Y	BPO.PR.Y	Pfd-3	P-3	\$13.63	\$0.522	3.83%	Quarterly	70% of Prime	N/A	N/A	ANYTIME	25.00

Source: Bloomberg, ScotiaMcLeod.

Split Preferred Shares



Description: Split preferred shares are synthetic preferred shares that are based on an underlying portfolio of common shares or on a portfolio created from more diverse or complex financial instruments, including derivatives. In the most basic split preferred share the underlying portfolio allocates any capital appreciation to a capital share and all dividend income to a dividend (preferred) share. This class of preferred share is not without risk. The preferred payments by a split share corporation are merely a flow-through of distributions received on the portfolio of securities it holds. Therefore, if a split shares' underlying portfolio holding(s) cuts its dividend, or an event occurs which impairs the portfolio's ability to receive income, both the capital and preferred shares will likely drop in price. The preferred shares will then fall in price to a yield level where new investors feel adequately compensated for the risk of either another dividend cut, or, the possibility that they will not receive par value for the preferred at maturity. In general, splits that have a diversified portfolio are considered less risky than those based on a single common share. Split preferred shares are appropriate for investors looking for a steady income stream with a fixed term maturity. In many cases they offer yields above retractable and rate reset preferred shares for only a modest increase in risk.

Redemption: Split preferred shares can be redeemed by the issuer when a capital share is retracted without a preferred share (generally, one preferred share and one capital share together make up a whole unit). Most split shares have a special annual retraction date when holders of capital shares can retract them for very little or no cost. When this happens, the issuer must call in or redeem enough preferred shares to match the amount of capital shares retracted. Each split preferred shareholder has a proportionate amount of preferreds redeemed at par when this happens. This is not in the best interest of the preferred shareholder as their capital gets reduced and the projected future cash flows will be altered. Please refer to page 40 of this publication for the detailed notes of the redemption features pertaining to each issue.

Retraction: Split share preferreds are retractable on their own or in certain cases as a whole unit—a preferred share plus a capital share on a special annual retraction date. Details differ between issues and can be found on page 40.

Advantages: Split preferred shares offer a yield pickup over existing preferreds often without sacrificing credit quality. Additionally, split shares have a definitive maturity date and can be incorporated into a laddered portfolio.

Risks: The risks of split preferred shares include events that may impact the underlying portfolio's value. If the net asset value of the underlying portfolio falls substantially and remains at those levels until maturity, the investor may not receive the par value of their investment. Reviewing a split shares' *downside protection* is one approach to assess the risk level of the investment. Downside protection is the amount by which the market value of the underlying portfolio may fall before the ability to repay the par value of the preferred share is impeded. In addition, this type of preferred share is often less liquid than other preferred shares due to the lower number of shares outstanding.

What's New: There have been eight new split shares that have come to market over the past year most of which were secondary issues which boosted the number of shares outstanding. Allbanc Split Corp and Big 8 Split Corp were the two issues which replaced existing split shares which were redeemed in 2013. Global Champion Split (GCS.PR.A) is a new split share which was created to provide investors with an exposure to a diversified portfolio of large capitalization companies. Throughout the year, there were also various split shares companies that extended their maturity date, following approval from shareholders.

Sector Trends: Although there is an abundance of split shares outstanding, investors should focus on those that have high credit quality providing at least 35% downside protection for the preferred share investors. Contact your ScotiaMcLeod advisor for a current list of recommendations.

Split Share Commentary

The various split share yields demonstrate where the various issues trade in relation to other issues of the same type of split. However, the downside protection of each preferred should also be closely evaluated. There is often a reason why certain splits are trading with a very high yield as they may either have a lower credit rating or have less downside protection available for the preferred shareholder. Each split share is listed in the table below and on the following page which details all of the important information of each product.

Split Shares Based on a Single Common Share										
Issuer Investment Grade (P1-P2)	TSE Symbol	RATING			Price Dec 31/13	Div	RETRACTION			Downside Protection
		DBRS	S&P				Date	Price	Pre-tax YTR	
BNS Split Corp. II 4.25%	BSC.PR.B	Pfd-2L	N/A		\$19.16	\$0.801	22-Sep-15	18.85	3.44	67.79%
Partners Value Split 4.35% Class AA	BNA.PR.C	Pfd-2L	N/A		\$24.25	\$1.088	10-Jan-19	25.00	5.08	68.29%
Partners Value Split 4.85% Class AA Ser 5	BNA.PR.E	Pfd-2L	N/A		\$25.32	\$1.213	10-Dec-17	25.00	4.64	68.29%
Partners Value Split 4.95% Class AA	BNA.PR.B	Pfd-2L	N/A		\$25.31	\$1.238	25-Mar-16	25.00	4.53	68.29%
Partners Value Split 7.25% Class AA Ser 4	BNA.PR.D	Pfd-2L	N/A		\$25.30	\$1.813	9-Jul-14	25.00	5.20	68.29%
R Split III Corp. 4.25%	RBS.PR.B	Pfd-2	N/A		\$13.73	\$0.578	31-May-17	13.60	4.13	71.08%
TD Split Inc. Ser. C 4.75%	TDS.PR.C	Pfd-2	N/A		\$10.30	\$0.475	15-Nov-15	10.00	3.53	71.94%
Non-Investment Grade (P3-P5)										
New Commerce Split 7.50% Class I	YCM.PR.A	N/A	N/A		\$5.11	\$0.375	1-Dec-14	5.00	5.38	54.63%
New Commerce Split 7.50% Class II	YCM.PR.B	N/A	N/A		\$4.48	Discont	1-Dec-14	5.00	12.93	16.94%
S Split Corp. 5.25%	SBN.PR.A	Pfd-3	N/A		\$10.35	\$0.525	1-Dec-14	10.00	1.50	48.98%
TDb Split Inc. 5.25%	XTD.PR.A	N/A	N/A		\$10.13	\$0.525	1-Dec-14	10.00	3.56	26.63%

Source: Bloomberg, ScotiaMcLeod.

Split Shares Which Pay Interest										
Issuer Investment Grade (P1-P2)	TSE Symbol	RATING			Price Dec 31/13	Div	RETRACTION			Downside Protection
		DBRS	S&P				Date	Price	Pre-tax YTR	
Utility Split Trust 5.25% Class B	UST.PR.B	Pfd-2L	N/A		\$11.56	\$0.525	31-Dec-16	10.00	-0.37	61.88%
Non-Investment Grade (P3-P5)										
Brookfield SoundVest	BSD.PR.A	Pfd-4L	N/A		\$9.70	\$0.600	31-Mar-15	10.00	9.02	20.76%
Faircourt Split Trust	FCS.PR.B	Pfd-3L	N/A		\$10.11	\$0.625	31-Dec-14	10.00	5.42	39.47%
Top 10 Split Trust 6.25%	TXT.PR.A	NR	N/A		\$12.68	\$0.781	30-Mar-16	12.50	5.72	28.24%

Source: Bloomberg, ScotiaMcLeod.

Split Shares Based on an Underlying Portfolio of Common Shares										
Issuer	TSE Symbol	RATING			Price Dec 31/13	Div	RETRACTION			Downside Protection
		DBRS	S&P				Date	Price	Pre-tax YTR	
Investment Grade (P1-P2)										
5Banc Split Inc. 4.75% Class C	FBS.PR.C	Pfd-2	N/A		\$10.66	\$0.475	15-Dec-16	10.00	2.55	67.55%
Allbanc Split Corp. 4.00%	ABK.PR.C	Pfd-2L	N/A		\$31.81	\$1.265	9-Mar-18	31.64	3.98	59.70%
Big 8 Split Corp. Class D 4.50%	BIG.PR.D	Pfd-2L	N/A		\$10.10	\$0.450	15-Dec-18	10.00	4.37	53.94%
Big Bank Big Oil Split 5.25%	BBO.PR.A	Pfd-2L	N/A		\$10.19	\$0.525	16-Dec-16	10.00	4.29	50.98%
First Asset CanBanc Split 6.50%	CBU.PR.A	Pfd-2H	N/A		\$12.45	\$0.650	15-Jan-16	10.00	-5.10	77.17%
Global Champions Split Corp 4.00%	GCS.PR.A	Pfd-2L	N/A		\$25.00	\$1.000	31-Jul-19	25.00	3.98	49.61%
Newgrowth Corp. Ser 2 6.0%	NEW.PR.C	Pfd-2H	N/A		\$13.82	\$0.822	26-Jun-14	13.70	4.92	73.16%
Non-Investment Grade (P3-P5)										
Allbanc Split Corp. II 4.25%	ALB.PR.B	NR	N/A		\$22.18	\$0.927	28-Feb-16	21.80	3.69	61.35%
Brompton Lifeco Split	LCS.PR.A	Pfd-4H	N/A		\$10.05	\$0.525	30-Apr-14	10.00	2.98	41.31%
Brompton Split Banc 4.50%	SBC.PR.A	Pfd-3H	N/A		\$10.06	\$0.450	30-Nov-17	10.00	4.21	56.78%
Canadian Banc Recovery Corp	BK.PR.A	Pfd-3	N/A		\$10.26	\$0.500	1-Dec-18	10.00	4.40	53.70%
Cdn. Life Companies Pref 6.25%	LFE.PR.B	N/A	N/A		\$10.02	\$0.625	1-Dec-18	10.00	6.30	29.73%
Dividend 15 Split 5.25%	DFN.PR.A	Pfd-3	N/A		\$10.02	\$0.525	1-Dec-19	10.00	5.22	51.60%
Dividend 15 Split II 5.25%	DF.PR.A	Pfd-3L	N/A		\$9.95	\$0.525	1-Dec-19	10.00	5.36	40.69%
Dividend Growth Split 5.25% (extend to 2019)	DGS.PR.A	Pfd-3	N/A		\$10.04	\$0.525	30-Nov-14	10.00	5.64	46.41%
Financial 15 Split 5.25%	FTN.PR.A	Pfd-4H	N/A		\$10.06	\$0.525	1-Dec-15	10.00	5.09	40.19%
Financial 15 Split II 5.25%	FFN.PR.A	Pfd-4H	N/A		\$10.05	\$0.525	30-Dec-14	10.00	4.59	38.23%
Life & Banc Split Corp. 4.75%	LBS.PR.A	Pfd-3L	N/A		\$10.02	\$0.508	29-Nov-18	10.00	4.61	48.13%
Premium Income Corp 5.75%	PIC.PR.A	NR	N/A		\$15.34	\$0.863	1-Nov-17	15.00	5.45	32.64%
Prime Dividend(Prime+75 Bps)	PDV.PR.A	Pfd-3	N/A		\$10.24	\$0.500	1-Dec-18	10.00	4.44	44.48%
US Financial 15 Split 2012 Pref 5.25%	FTU.PR.B	N/A	N/A		\$5.74	\$0.326	1-Dec-18	10.00	15.81	-61.55%
World Financial Split 5.25%	WFS.PR.A	NR	N/A		\$9.76	\$0.525	30-Jun-18	10.00	5.94	22.24%

Source: Bloomberg, ScotiaMcLeod.

Split Preferred Shares Retraction Features

1. **Allbanc Split Corp.** can be redeemed by the company at par (\$31.64) on the annual retraction date (March) to the extent that capital shares have been retracted without a matching amount of preferred shares. The preferred shares can be retracted on a monthly basis for a payment equal to 95% of the unit value less the cost of purchasing a Capital Share in the market, less \$1.00.
2. **Allbanc Split Corp. II** can be redeemed by the company at par on the annual retraction date (February) to the extent that capital shares have been retracted without a matching amount of preferred shares. The preferred shares can be retracted on a monthly basis for the amount by which 95% of the Unit Value exceeds the aggregate of i) the average cost to the company, including commissions, of purchasing two capital shares in the market; and ii) \$1.00.
3. **Big Bank Big Oil Split Corp.** preferred shares can be surrendered for retraction at any time but will be retracted only on the second last business day of each month. Shareholders retracting preferred shares will receive 96% of the lesser of i) the NAV per Unit less the cost to the company to purchase a capital share for cancellation, and ii) \$10.00. A preferred shareholder may concurrently retract an equal number of preferred and capital shares on the second last business day in December of each year at a retraction price equal to the NAV per Unit on that date, less any cost associated with the retraction.
4. **Big 8 Split Corp. Inc.(BIG.PR.D)** preferred shares may be redeemed by the company on the special annual retraction (December) at par (\$25.00) to the extent that capital shares are retracted. Preferred shares may also be retracted at any time at a cash price per preferred equal to the amount by which 95% of the unit value exceeds the aggregate of i) the average cost to the company including commissions of buying a capital share in the market and ii) \$1.00. A holder who surrenders one Preferred Share together with one Capital Share will receive an amount equal to the Unit NAV less any costs associated with the retraction.
5. **BNS Split Corp. II** preferred shares can be surrendered for retraction at any time for an amount if any, by which 95% of the Unit Value exceeds the aggregate of (i) the average cost to the Company, including commissions, of purchasing two Capital Shares in the market; and (ii) \$1.00. The company may also redeem the shares on the special annual retraction date (September) at \$18.85 to the extent that unmatched capital shares are retracted. Preferred shares can also be redeemed by the company prior to the redemption date at a price, which until September 22, 2011 will be \$19.60 and which will decline by \$0.1875 each year to equal \$18.85 after September 22, 2014.
6. **Brookfield Soundvest Split Trust** preferred securities can be redeemed with capital units under the annual retraction at least 15 days before the last business day in November. The redemption value will equal the Combined Value less redemption costs.
7. **Brompton Lifeco Split Corp** preferred shares can be surrendered at anytime for retraction and holder are entitled on a monthly basis to receive a retraction price per share equal to 96% of the lesser of (i) the NAV per Unit determined as of the relevant Retraction Date, less the cost to the Company of the purchase of a Class A Share for cancellation, and (ii) \$10.00. Under the Annual Concurrent retraction a holder can retract an equal number of Preferred Shares and Class A Shares on the April Retraction Date of each year for a retraction price per Unit to the NAV per Unit on that date.
8. **Brompton Split Banc Corp.** preferred shares can be retracted concurrently with capital shares on the annual retraction date each December. A holder tendering an equal number of preferred and capital shares will receive a price equal to NAV per Unit on that date, less any costs associated with the retraction. As for the monthly retraction holder will receive a retraction price per share equal to 96% of the lesser of (i) the NAV per Unit determined as of the relevant Retraction Date less the cost to the Company of the purchase of a Class A Share for cancellation, and (ii) \$10.00.
9. **Canadian Banc Recovery Corp.** preferred shares can be retracted at any time on a monthly basis. Investors retracting preferred shares will receive an amount per preferred equal to the lesser of i) \$10.00; and ii) 96% of the NAV as of the retraction date less the cost to the Company of the purchase of a Class A share in the market for cancellation. Each July shareholders can concurrently retract a Preferred Share and a Capital Share on the retraction date and will be entitled to receive an amount equal to the NAV per Unit less any commission s and other costs (to a maximum of 1% of the NAV per unit) related to liquidating the Portfolio to pay such redemption amount.
10. **Canadian Life Companies Split** preferred shares can be retracted on a monthly basis for the amount per preferred share equal to the lesser of i) \$10.00; and ii) 96% of the Net Asset Value determined as of the retraction date less the cost to the company of the purchase of a Class A Share in the market for cancellation. Shareholders who concurrently retract a Preferred Share and a Class A Share on the Retraction Date in the month of March in each year will be entitled to receive an amount equal to the Net Asset Value per Unit calculated as of that date, less any related commissions and other costs (to a maximum of 1% of the Net Asset Value per Unit) related to liquidating the Portfolio to pay such redemption amount.
11. **Dividend 15 Split Corp.** preferred shareholders can retract their holdings on a monthly basis at the lesser of i) \$10.00; and ii) 96% of the NAV per unit less the cost to the Company of the purchase of a Class A share in the market and any related commissions and other costs. Under the Special Annual Concurrent Retraction a preferred shareholder can retract an equal amount of preferred and Class A shares in August each year for an amount equal to the NAV less any commissions and other costs related to liquidating the portfolio to pay such an amount.
12. **Dividend 15 Split Corp.II** preferred shareholders can retract their holdings on a monthly basis at the lesser of i) \$10.00; and ii) 96% of the NAV per unit less the cost to the Company of the purchase of a Class A share in the market. Holders may concurrently retract a preferred and Class A share in August for an amount equal to the NAV.

Split Preferred Shares Retraction Features (cont'd)

13. **Dividend Growth Corp.** preferred shareholders may retract their holdings on a monthly basis for an amount equal to 96% of the lesser of (i) the NAV per Unit determined as of the relevant Retraction Date, less the cost to the Company of the purchase of a Class A Share for cancellation, and (ii) \$10.00. A holder of a Preferred Share may concurrently retract an equal number of Preferred Shares and Class A Shares on a Quarterly Retraction Date at a retraction price equal to the NAV per Unit on that date, less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the Portfolio required to fund such retraction.
14. **5Banc Split Inc.** preferred shares are retractable at any time at a cash price equal to the amount by which 95% of the Unit Value exceeds the aggregate of i) the average cost to the company of purchasing a Capital Share in the market ; and ii) \$0.40. The Company can call shares at \$10.00 per share to the extent that unmatched capital shares have been tendered for retraction on the annual retraction date of December 15 each year.
15. **Faircourt Split Trust** preferred securities surrendered together with an equal number of Units for redemption will receive payment for each Combined Security equal to the Combined Value determined as of the Redemption Date, less redemption costs.
16. **Financial 15 Split Corp.** preferred shares can be retracted monthly for an amount per preferred share equal to the lesser of a) \$10.00 and b) 96% of the NAV per Unit less the cost to the Company to purchase Class A shares in the market. Each October shareholders can concurrently retract a preferred share with a Class A share on the Retraction Date for an amount equal to the NAV.
17. **Financial 15 Split Corp. II** preferred shares can be retracted any time for an amount per preferred share equal to the lesser of a) \$10.00 and b) 96% of the Net Asset Value per unit as of the Retraction Date less the cost to the company to purchase a Class A Share in the market for cancellation. Shareholders who concurrently retract a Preferred Share and a Class A Share on the Retraction Date in October will be entitled to receive an amount equal to the Net Asset Value per Unit on that date less any related commissions and other costs (to a maximum of 1% of the Net Asset Value per Unit).
18. **US Financial 15 Split 2012 Corp.** preferred shares can be retracted any time for an amount per preferred share equal to the lesser of a) \$10.00 and b) 96% of the Net Asset Value per unit as of the Retraction Date less the cost to the company to purchase a Class A Share in the market for cancellation. Shareholders who concurrently retract a Preferred Share and a Class A Share on the Retraction Date in February will be entitled to receive an amount equal to the Net Asset Value per Unit on that date less any related commissions and other costs (to a maximum of 1% of the Net Asset Value per Unit).
19. **First Asset CanBanc Split Corp** preferred shareholders may retract their shares on a monthly basis for an amount equal to the lesser of (i) 95% of the NAV per Unit determined as of the relevant Retraction Date less the pro rata portion of the Note then outstanding and less the cost to the Company of the purchase of a Class A Share for cancellation, and (ii) \$10.00. A holder of a Preferred Share may concurrently retract an equal number of Preferred Shares and Class A Shares on the second last Business Day of January of each year, commencing in January 2010, at a retraction price equal to the NAV per Unit on that date, less the pro rata portion of the Note then outstanding and less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the Portfolio required to fund such retraction.
20. **Global Champions Split Corp** preferred shares can be retracted at any time. A holder retracting will receive a number of debentures (Series 1) as payment for the shares. The retraction price will be equal to the lesser of (i) Net Asset Value per Unit and (ii)\$25.00. The Series 1 Debentures will be issued by the Company and have a principal amount of \$25.00 and will mature on July 31, 2019. The Preferred Shares are callable by the company at a price of \$26.00 until July 31, 2017, \$25.50 between July 31, 2017 - July 31, 2018 and \$25.25 after July 31, 2018 and prior to the final redemption date (July 31, 2019).
21. **Life & Banc Split Corp.** preferred shares can be retracted at any time but will be retracted only on a monthly Retraction Date. Shareholders retracting preferred shares will receive 96% of the lesser of i) the NAV per Unit less the cost to the company to purchase a capital share for cancellation, and ii) \$10.00. A preferred shareholder may concurrently retract an equal number of preferred and capital shares tendered at least ten business days before the Annual Retraction Date in November of each year at a retraction price equal to the NAV per Unit on that date, less any cost associated with the retraction.
22. **NewGrowth Corp.** preferred shares are redeemable annually on June 26th at \$13.70 to the extent the Class A capital shares are retracted under the special annual retraction. Retractable at any time at a price equal to the amount that 95% of the NAV of the unit exceeds the sum of the average cost of buying a capital share in the market including commissions and \$1.00. Under a concurrent annual retraction of a preferred and capital share the holder will receive full value of the unit.
23. **Partners Value Split Corp Class AA Series 1 (BNA.PR.B)** preferred shares can be retracted any time for an amount equal to the lesser of i) 95% of the NAV per unit and ii) \$25.00 less 5% of the NAV per unit, in either case less \$1.00. Callable by the company at any time prior to redemption at a price equal to \$26.00 from March 25, 2009 until Mach 25, 2016 and then the price will decline by \$0.25 per year until March 25, 2016 at which time the redemption price will be \$25.00.
24. **Partners Value Split Corp Class AA Series 3 (BNA.PR.C)** preferred shares can be retracted at any time. A holder retracting will receive a number of debentures (Series 1) as payment for the shares. The retraction price will be equal to the lesser of (i) Net Asset Value per Unit and (ii)\$25.00. The Series 1 Debentures will be issued by the Company and have a principal amount of \$25.00 and will mature on January 10, 2019. The Preferred Shares are callable by the company at any time on or after January 10, 2012 at a price of \$26.00 until January 9, 2016, and then the price will decline by \$0.25 per year.

Split Preferred Shares Retraction Features (cont'd)

25. **Partners Value Split Corp Class AA Series 4 (BNA.PR.D)** preferred shares can be retracted at any time. A holder retracting will receive a number of debentures (Series 2) as payment for the shares. The retraction price will be equal to the lesser of (i) Net Asset Value per Unit and (ii)\$25.00. The Series 2 Debentures will be issued by the Company and have a principal amount of \$25.00 and will mature on July 9, 2014. The Preferred Shares are callable by the company at any time at a price of \$26.00 plus accrued and unpaid dividend.
26. **Partners Value Split Corp Class AA Series 5 (BNA.PR.E)** preferred shares can be retracted at any time. A holder retracting will receive a number of debentures (Series 3) as payment for the shares. The retraction price will be equal to the lesser of (i) Net Asset Value per Unit and (ii)\$25.00. The Series 3 Debentures will be issued by the Company and have a principal amount of \$25.00 and will mature on December 10, 2017. The Preferred Shares are callable by the company at any time on or after December 10, 2015 and prior to December 10, 2017 at a price of \$25.50 plus accrued and unpaid dividend until December 10, 2016. The redemption price will decline by \$0.25 each year thereafter to \$25.00. Additionally, the Company can redeem the shares anytime at \$26.00 plus accrued and unpaid dividends if capital shares have been retracted.
27. **Premium Income Corp** preferred shares are retractable monthly and holders will be entitles to receive a retraction price per share equal to 96% of the less of (i) the NAV per unit less the cost to the company of the purchase of a capital share in the market for cancellation and (ii) \$15.00. The cost of the purchase of a Class A Share will include the purchase price of the Class A Share, commission and such other costs, if any, related to the liquidation of any portion of the Portfolio to fund such purchase. A holder of Preferred Shares may concurrently retract an equal number of Preferred Shares and Class A Shares on the October Valuation Date of each year, at a retraction price equal to the NAV per Unit on that date.
28. **Prime Dividend Corp.** preferred shares can be retracted at any time on a monthly basis and will receive an amount per preferred share equal to the lesser of i) \$10.00; and ii) 96% of the Net Asset Value determined as of the retraction date, less the cost to the company of the purchase of a Class A Share in the market for cancellation. Shareholders may concurrently retract a Preferred Share and a Class A Share on the annual retraction date will receive NAV less any related commissions and other costs (to a maximum of 1% of the NAV per unit), related to liquidating the Portfolio to pay such redemption amount.
29. **R Split III Corp** preferred shareholders can retract shares any time for an amount by which 95% of the Unit Value exceeds the aggregate of i) the average cost to the Company, including commissions, of purchasing two Capital shares in the market; and ii) \$1.00. Under a Concurrent Retraction a holder who surrenders two Capital shares together with one preferred share will receive an amount equal to 95% of the Unit Value less \$1.00. A holder who surrenders two Capital Shares together with one preferred share under a Special Annual Retraction (May) will receive an amount equal to the Unit Value.
30. **S Split Corp** shareholders have a fee associated with retracting a Preferred Share or Class A share prior to July 2014 which can be found in the prospectus. Preferred shareholder have a monthly retraction option and will be entitled to receive a price equal to 95% of the lesser of (i) the NAV per Unit determined as of the relevant Valuation Date less the cost to the Company of the purchase of a Class A Share in the market for cancellation; and (ii) \$10.00. A holder of Preferred Shares may concurrently retract an equal number of Preferred Shares and Class A Shares on the Annual Valuation Date (June) at a retraction price equal to the NAV per Unit on that date, less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the Company's portfolio required to fund such retraction.
31. **TD Split Inc.** preferred shares are redeemable at par (\$10.00) on the annual retraction date, November 15th of each year, to the extent that capital shares are tendered for retraction without a preferred share. Preferreds are also retractable at any time with the holder receiving an amount by which 95% of the Unit Value exceeds the aggregate of i) the average cost to the Company, including commissions, of purchasing a capital share in the market; and ii) \$1.00.
32. **TDb Split Inc** 5.25% have a monthly retraction feature where holders will receive an amount per Preferred Share equal to the lesser of (i) \$10.00; and (ii) 96% of the net asset value per Unit determined as of the Retraction Date less the cost to the Company of the purchase of a Class A Share in the market for cancellation. Shareholders who concurrently retract a Preferred Share and a Class A Share on the Retraction Date in the month of December in each year will be entitled to receive an amount equal to the net asset value per Unit calculated as of that date.
33. **Top 10 Split** Trust Preferred Securities can be concurrently retracted with Capital Units under a monthly retraction of 95% equal to the less of: (i) The combined value less \$0.50; and (ii) the Combined Security Market Price.
34. **Utility Split Trust** preferred shareholders may surrender a Preferred Security for repayment together with a Capital Unit under the Concurrent Annual Redemption (April) terms for proceeds equal to the redemption proceeds per combined security less the aggregate of all brokerage fees, commissions and other costs relating to the disposition of securities in the portfolio to fund such redemption.
35. **World Financial Split Corp.** preferred shares can be retracted at any time on a monthly valuation date and holders will receive 96% of the lesser of i) the NAV per Unit less the cost to the company of purchasing a Class A share in the market; and ii) \$10.00. Under the Annual Concurrent Retraction a holder may retract one preferred share together with one Class A share in June of each year for a price equal to the NAV on that date.

Source: Company Prospectuses.

Appendices

Appendix I – Preferred Share Glossary

Basel III: Regulation changes that include new capital guidelines for banks to protect against any future economic or financial crisis.

Cumulative: If a company's Board of Directors votes not to pay a dividend on a cumulative preferred share when due, the unpaid dividends accumulate. All the accrued and unpaid dividends on the cumulative preferred share must be paid before dividends can be paid on the common. This type of preferred is considered a safer and more conservative investment than a non-cumulative share.

Current Yield: Yield calculated by dividing the annual dividend of the preferred share by its current price. This calculation is often used to compare perpetual preferred shares as they have no maturity date.

DBRS: Dominion Bond Rating Service—an agency that provides objective rating opinions on the credit worthiness of investments such as bonds and preferred shares. This firm's rating scale for preferred shares ranges from Pfd-1—superior credit quality, to Pfd-5—speculative credit quality, and includes the rating D (defaulted) for preferred shares which have stopped paying dividends. Their website provides free rating information and commentary. (www.dbrs.com)

Dividend Gross-up: Canadian corporations pay dividends out of after-tax income. In order to integrate the taxes paid by corporations and individuals and avoid double taxation, dividends received by individuals are “grossed-up” by 25% to increase the amount on which tax is paid. The dividend tax credit is then applied to the “grossed-up” amount to refund an amount equal to the tax that is paid, in theory, by the corporation paying the dividend.

Downside Protection: The amount by which the market value of the underlying portfolio may fall before the ability to repay the par value of the preferred share is impeded. It is calculated as follows: (Net Asset Value of Capital share / Net Asset Value Per Unit).

Fixed Rate: Also known as a **straight perpetual preferred**, these shares pay a fixed dividend and their share price will move inversely to interest rates. These preferreds tend to behave like long dated bonds in a period of falling interest rates—the fixed dividend becomes more attractive as rates fall.

Non-cumulative: Dividends on this type of preferred share do not accrue if the Board of Directors chooses not to pay dividends when due. Non-cumulative preferred shares are generally less attractive than cumulative preferreds. Most financial services preferred shares are non-cumulative.

Non-Viable Contingent Capital (NVCC): An instrument that contains provisions to be converted into common shares if the regulator determines that the bank is no longer viable. Qualifies as Tier 1 Capital for banks as per Basel III regulations.

Par Value: The stated face value of a preferred share is usually \$25.00. Par value of a preferred share indicates the dollar amount of assets each share would be entitled to should the company be liquidated.

Pre-Tax Interest Equivalent Yield: Pre-tax interest equivalent yield equates the dividend yield on a preferred to a yield that is comparable to that on a bond. Since dividend income and interest income are taxed at different rates, the dividend yield should be adjusted by the differential in dividend and income tax rates (the pre-tax interest equivalent multiplier) to produce a pre-tax interest equivalent yield. This is the pre-tax yield required on a bond to provide the same yield as that on a preferred share (of similar maturity) on an after-tax basis. For example, a preferred share trading at par with a dividend yield of 4% has a pre-tax interest equivalent yield of 5.24% in Ontario (4.00% x 1.31, the pre-tax interest equivalent multiplier for Ontario). Therefore, a bond of similar credit quality would have to offer a yield of 5.24% to provide the same after tax yield as a preferred share yielding 4.00%.

Ratchet Mechanism: A ratchet mechanism is intended to keep the price of a floating rate preferred share within a certain range of its par value. This is achieved by adjusting the dividend higher if the share price falls substantially below par or reducing the dividend if the price rises above par.

Redeemable: Also known as callable, this feature allows the issuer to redeem the preferred share at a price on a specified date, occasionally at a premium to par value.

S&P: Standard and Poor's—an agency which gives objective rating opinions on bonds and preferred shares. Its rating scale on preferred shares ranges from the highest rating P-1 High (securitized preferred shares), to P-5 (speculative with poor asset coverage). Most bank preferred shares carry a P-1 Low rating which would equate to an A- rating in the bond rating scale. Their website provides ratings on many Canadian issuers. (www.standardandpoors.com)

Soft Redeemable: This feature allows the issuer to redeem the preferred shares at the various call dates and pay either cash or common shares for redemption.

Yield to Retraction: Yield to retraction (or yield to maturity) describes the return that includes dividends and any capital gains or losses that may be realized by the investor if the shares are held to the retraction or maturity date.

Yield to Worst Call: Yield to worst call refers to the lowest yield an investor will earn at the given market price (before commissions) if the issuer redeems the preferred share at an early redemption date (also known as the “call” date).

Appendix II – Proposed Tax Rate Tables for 2014

Proposed Marginal Tax Rates for Interest – Year 2014								
Province	Brackets (\$)	Up to \$43,953	Brackets (\$)	\$43,953 to \$87,907	Brackets (\$)	\$87,907 to \$136,270	Brackets (\$)	\$136,270 and over
Alberta	0	-0.03%	43,953	9.63%	87,907	15.15%	136,270	19.29%
British Columbia	37,606	-3.20%	86,354	12.79%	104,858	21.64%	150,000	28.68%
	0	-6.84%	75,213	10.32%	87,907	18.31%	136,270	25.78%
			43,953	6.46%				
Manitoba	31,000	6.53%	67,000	22.60%	87,907	28.12%	136,270	32.26%
		3.84%	43,953	16.19%				
New Brunswick	39,305	3.86%	78,609	15.87%	127,802	23.21%	136,270	27.35%
		-3.23%	43,953	13.52%	87,907	21.39%		
Newfoundland	34,254	2.04%	68,508	12.81%	87,907	18.33%	136,270	22.47%
		-4.58%	43,953	11.70%				
Nova Scotia	29,590	8.39%	59,180	20.42%	93,000	27.09%	150,000	36.06%
		-0.11%	43,953	18.05%	87,907	25.94%	136,270	31.23%
Ontario			83,237	19.86%				
	40,120	-1.20%	80,242	14.31%	87,907	25.38%	514,090	33.82%
	0	-6.86%	70,651	10.99%			136,270	29.52%
			43,953	8.46%				
Prince Edward Island	31,984	4.53%	63,969	18.19%	98,145	24.56%	136,270	28.70%
		-0.99%	43,953	14.19%	87,907	23.71%		
Quebec	41,495	11.16%	82,985	24.74%	100,970	31.77%	136,270	35.22%
		5.64%	43,953	19.22%	87,907	29.35%		
Saskatchewan	43,292	2.73%	43,953	12.39%	123,692	20.67%	136,270	24.81%
		-0.03%			87,907	17.91%		
Yukon	0	-11.12%	82,073	1.81%	87,907	9.88%	136,270	15.93%
			43,953	2.18%				

Note: These are current rates but while proposed are legislative and subject to change following new provincial rate announcements.

Source: TaxTips.ca

Proposed Marginal Tax Rates for Dividends– Year 2014							
Province	Brackets (\$)	Up to \$43,561	Brackets (\$)	\$43,561 to \$87,123	Brackets (\$)	\$87,123 to \$135,054	\$135,054 and over
Alberta	0	-0.03%	43,561	9.63%	87,123	15.15%	19.29%
British Columbia	37,568	-3.20%	86,268	12.79%	104,754	21.64%	
	0	-6.84%	75,138	10.32%	87,123	18.31%	25.78%
			43,561	6.46%			
Manitoba	31,000	6.53%	67,000	22.60%	87,123	28.12%	32.26%
		3.84%	43,561	16.19%			
New Brunswick	38,954	0.11%	77,908	10.18%	126,662	18.33%	22.47%
		-4.03%	43,561	9.77%	87,123	15.70%	
Newfoundland	33,748	2.04%	67,496	12.81%	87,123	18.33%	22.47%
		-4.58%	43,561	11.70%			
Nova Scotia	29,590	8.39%	59,180	20.42%	93,000	27.09%	31.23%
		-0.11%	43,561	18.05%	87,123	25.94%	
Ontario			82,422	19.88%			
	39,723	3.77%	79,448	17.52%	87,123	25.40%	29.54%
	0	-1.89%	69,963	14.19%			
			43,561	13.43%			
Prince Edward Island	31,984	4.53%	63,969	18.19%	98,145	24.56%	28.70%
		-0.99%	43,561	14.19%	87,123	23.71%	
Quebec	41,095	11.16%	80,200	24.74%	100,000	31.77%	35.22%
		5.64%	43,561	19.22%	87,123	29.35%	
Saskatchewan	42,906	2.73%	43,561	12.39%	122,589	20.67%	24.81%
		-0.03%			87,123	17.91%	
Yukon	0	-11.12%	81,888	1.81%	87,123	9.88%	15.93%
			43,561	2.18%			

Note: These are current rates but while proposed are legislative and subject to change following new provincial rate announcements.

Source: TaxTips.ca

Proposed Multipliers for Highest Tax Bracket Investors			
Province	Factor	Province	Factor
Alberta	1.3231	Nova Scotia	1.2788
British Columbia	1.3159	Ontario (\$136,240 - \$514,090)	1.3152
Manitoba	1.2638	Prince Edward Island	1.3547
New Brunswick	1.3666	Quebec	1.2948
Newfoundland	1.3437	Saskatchewan	1.3427
		Yukon	1.4595

Note: These are current rates but while proposed are legislative and subject to change following new provincial rate announcements.

Source: TaxTips.ca

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BCE Inc. Ser. Y (BCE.PR.Y)	35
BCE Inc. Series AE (BCE.PR.E)	35
BCE Inc. Series AH (BCE.PR.H)	35

Bell Aliant Pref Equity. 4.25% Ser E (BAF.PR.E)	31
Bell Aliant Pref Equity. 4.55% Ser C (BAF.PR.C)	31
Bell Aliant Pref Equity. 4.85% Ser A (BAF.PR.A)	31
Big 8 Split Corp. Class D 4.50% (BIG.PR.D)	39
Big Bank Big Oil Split 5.25% (BBO.PR.A)	39
Birchcliff Energy Ltd 8.00% Ser A (BIR.PR.A)	31
BMO 4.50% Ser. 13 (BMO.PR.J)	25
BMO 5.25% Ser. 14 (BMO.PR.K)	25
BMO 5.80% Ser. 15 (BMO.PR.L)	25
BNS 3.35% Ser. 18 (BNS.PR.P)	30
BNS 3.61% Ser. 20 (BNS.PR.Q)	30
BNS 3.70% Ser. 32 (BNS.PR.Z)	30
BNS 3.83% Ser. 22 (BNS.PR.R)	30
BNS 3.85% Ser. 30 (BNS.PR.Y)	30
BNS 4.50% Ser. 14 (BNS.PR.L)	25
BNS 4.50% Ser. 15 (BNS.PR.M)	25
BNS 4.80% Ser. 13 (BNS.PR.K)	25
BNS 5.25% Ser. 16 (BNS.PR.N)	25
BNS 5.60% Ser. 17 (BNS.PR.O)	25
BNS 6.25% Ser. 26 (BNS.PR.T)	30
BNS 6.25% Ser. 28 (BNS.PR.X)	30
BNS Split Corp. II 4.25% (BSC.PR.B)	38
Bombardier 3.134% Ser.3 (BBD.PR.D)	33
Bombardier 6.25% Ser. 4 (BBD.PR.C)	26
Bombardier Ser. 2 (BBD.PR.B)	35
Brompton Lifeco Split (LCS.PR.A)	39
Brompton Split Banc 4.50% (SBC.PR.A)	39
Brookfield Asset A Ser. 4 (BAM.PR.C)	35
Brookfield Asset A Ser. 2 (BAM.PR.B)	35
Brookfield Asset Mgmt 4.85% Ser. 36 (BAM.PF.C)	26
Brookfield Asset Mgmt 4.90% Ser. 37 (BAM.PF.D)	26
Brookfield Asset 3.80% S 9 (BAM.PR.G)	33
Brookfield Asset 4.20% S 34 (BAM.PF.B)	31
Brookfield Asset 4.50% S 26 (BAM.PR.T)	31
Brookfield Asset 4.50% S 32 (BAM.PF.A)	31
Brookfield Asset 4.60% S 28 (BAM.PR.X)	31
Brookfield Asset 4.80% S 30 (BAM.PR.Z)	31
Brookfield Asset 5.40% S 24 (BAM.PR.R)	31
Brookfield Asset 7.00% S 22 (BAM.PR.P)	31
Brookfield Asset A Ser. 8 (BAM.PR.E)	35
Brookfield Asset A Ser. 13 (BAM.PR.K)	35
Brookfield Asset A Ser. 14 (BAM.PR.L)	35
Brookfield Asset Mgmt 4.75% Ser. 17 (BAM.PR.M)	26

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Brookfield Asset Mgmt 4.75% Ser. 18 (BAM.PR.N)	26
Brookfield Office Prop Ser V (BPO.PR.X)	35
Brookfield Office Prop Ser W (BPO.PR.W)	35
Brookfield Office Prop Ser Y (BPO.PR.Y)	35
Brookfield Prop 4.60% Ser. T (BPO.PR.T)	31
Brookfield Prop 5.10% Ser. R (BPO.PR.R)	31
Brookfield Prop 5.15% Ser. P (BPO.PR.P)	31
Brookfield Prop 6.15% Ser. N (BPO.PR.N)	31
Brookfield Prop 6.75% Ser. L (BPO.PR.L)	31
Brookfield Renewable Energy 4.40% Ser 3 (BRF.PR.C)	31
Brookfield Renewable Energy 5.00% Ser 5 (BRF.PR.E)	26
Brookfield Renewable Energy 5.00% Ser 6 (BRF.PR.F)	26
Brookfield Renewable Energy 5.25% Ser 1 (BRF.PR.A)	31
Brookfield SoundVest (BSD.PR.A)	38
Can Western Bank 7.25% Ser. 3 (CWB.PR.A)	31
Canaccord Financial Inc. 5.50% Ser A (CF.PR.A)	31
Canaccord Financial Inc. 5.75% Ser C (CF.PR.C)	31
Canadian Banc Recovery Corp (BK.PR.A)	39
Canadian Utilities 4.00% Series Y (CU.PR.C)	31
Capital Power Corp 4.50% Ser 5 (CPX.PR.E)	31
Capital Power Corp 4.60% Ser 1 (CPX.PR.A)	31
Capital Power Corp 4.60% Ser 3 (CPX.PR.C)	31
Capstone Infrastructure 5.00% Ser B (CSE.PR.A)	31
CDN Util. 4.50% Ser. CC (CU.PR.F)	26
CDN Util. 4.50% Ser. DD (CU.PR.G)	26
CDN Util. 4.90% Ser. AA (CU.PR.D)	26
CDN Util. 4.90% Ser. BB (CU.PR.E)	26
Cdn. Life Companies Pref 6.25% (LFE.PR.B)	39
CIBC 5.35% Ser. 33 (CM.PR.K)	30
CIBC 5.40% Ser. 29 (CM.PR.G)	26
CIBC 5.60% Ser. 27 (CM.PR.E)	26
CIBC 5.75% Ser. 26 (CM.PR.D)	26
CIBC 6.5% Ser. 35 (CM.PR.L)	30
CIBC 6.5% Ser. 37 (CM.PR.M)	30
Co-operators Ser. C 5.00% (CCS.PR.C)	26
Co-operators Ser. D 7.25% (CCS.PR.D)	30
CU Inc. 3.8% Ser. 4 (CIU.PR.C)	31
CU Inc. 4.60% Ser. 1 (CIU.PR.A)	26
CU Inc. 6.7% Ser. 2 (CIU.PR.B)	31
Dividend 15 Split 5.25% (DFN.PR.A)	39
Dividend 15 Split II 5.25% (DF.PR.A)	39
Dividend Growth Split 5.25% (DGS.PR.A)	39
Dundee Corp 6.75% Ser 2 (DC.PR.B)	31

E-L Financial 4.75% Ser. 2 (ELF.PR.G)	26
E-L Financial 5.50% Ser. 3 (ELF.PR.H)	26
E-L Financial Corp. 5.30% (ELF.PR.F)	26
Element Financial Corp 6.60% Ser A (EFN.PR.A)	31
Emera Inc. 4.10% Ser C (EMA.PR.C)	31
Emera Inc. 4.40% Ser A (EMA.PR.A)	31
Emera Inc. 4.50% Ser E (EMA.PR.E)	26
Enbridge 5.50% Ser. A (ENB.PR.A)	26
Enbridge Inc. 4.00% Ser 3 (ENB.PR.Y)	31
Enbridge Inc. 4.00% Ser B (ENB.PR.B)	31
Enbridge Inc. 4.00% Ser D (ENB.PR.D)	31
Enbridge Inc. 4.00% Ser F (ENB.PR.F)	31
Enbridge Inc. 4.00% Ser H (ENB.PR.H)	31
Enbridge Inc. 4.00% Ser N (ENB.PR.N)	31
Enbridge Inc. 4.00% Ser P (ENB.PR.P)	31
Enbridge Inc. 4.00% Ser R (ENB.PR.T)	31
Enbridge Inc. 4.40% Ser 7 (ENB.PR.J)	31
Enbridge Inc. US\$ 4.00% Ser 1 (ENB.PR.V)	31
Enbridge Inc. US\$ 4.00% Ser J (ENB.PR.U)	31
Enbridge Inc. US\$ 4.00% Ser L (ENB.PR.U)	31
Enbridge Inc. US\$ 4.40% Ser 5 (ENB.PR.V)	31
Equitable Group Inc 7.25% Ser 1 (EQB.PR.A)	31
Faircourt Split Trust (FCS.PR.B)	38
Fairfax Financial Hld 4.75% Ser E (FFH.PR.E)	31
Fairfax Financial Hld 5.00% Ser G (FFH.PR.G)	31
Fairfax Financial Hld 5.00% Ser I (FFH.PR.I)	31
Fairfax Financial Hld 5.00% Ser K (FFH.PR.K)	31
Fairfax Financial Hld 5.75% Ser C (FFH.PR.C)	31
Financial 15 Split 5.25% (FTN.PR.A)	39
Financial 15 Split II 5.25% (FFN.PR.A)	39
First Asset CanBanc Split 6.50% (CBU.PR.A)	39
First National Financial Corp 4.65% Ser 1 (FN.PR.A)	31
Fortis Inc 3.883% Ser. G (FTS.PR.G)	31
Fortis Inc 4.00% Ser. K (FTS.PR.K)	31
Fortis Inc 4.25% Ser. H (FTS.PR.H)	31
Fortis Inc. 4.75% Ser. J (FTS.PR.J)	26
Fortis Inc. 4.90% Ser. F (FTS.PR.F)	26
G. Weston Ltd. 4.75% Ser.V (WN.PR.E)	26
G. Weston Ltd. 5.2% Ser.III (WN.PR.C)	26
G. Weston Ltd. 5.2% Ser.IV (WN.PR.D)	26
G. Weston Ltd. 5.8% Ser.I (WN.PR.A)	26
Global Champions Split Corp 4.00% (GCS.PR.A)	39
GMP Capital Inc. 5.50% Ser B (GMP.PR.B)	31

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Great West 4.5% Ser. I (GWO.PR.I)	26
Great West 4.80% Ser. R (GWO.PR.R)	26
Great West 4.85% Ser. H (GWO.PR.H)	26
Great West 5.15% Ser. Q (GWO.PR.Q)	26
Great West 5.20% Ser. G (GWO.PR.G)	26
Great West 5.40% Ser. P (GWO.PR.P)	26
Great West 5.65% Ser. L (GWO.PR.L)	26
Great West 5.80% Ser. M (GWO.PR.M)	26
Great West 5.90% Ser. F (GWO.PR.F)	26
Great-West Lifeco Inc. 3.65% Ser N (GWO.PR.N)	30
HSBC 5.0% Ser. D (HSB.PR.D)	25
HSBC 5.10% Ser. C (HSB.PR.C)	25
HSBC Bank Canada 6.60% Ser E (HSB.PR.E)	30
Husky Energy Inc 4.45% Ser 1 (HSE.PR.A)	31
IGM Financial Inc. 5.90% Ser. B (IGM.PR.B)	26
Industrial Alliance 4.30% Ser G (IAG.PR.G)	30
Industrial Alliance 4.60% (IAG.PR.A)	26
Industrial Alliance 5.90% Ser. F (IAG.PR.F)	26
Industrial Alliance 6.00% Ser. E (IAG.PR.E)	26
Innervex Renewable Energy Inc 5.00% (INE.PR.A)	31
Innervex Renewable Energy Inc 5.75% (INE.PR.C)	26
Intact Financial Corp 4.20% Ser 1 (IFC.PR.A)	30
Intact Financial Corp 4.20% Ser 3 (IFC.PR.C)	30
Laurentian Bank 4.00% Ser 11 (LB.PR.F)	31
Laurentian Bank 5.25% Ser. 10 (LB.PR.E)	25
Life & Banc Split Corp. 4.75% (LBS.PR.A)	39
Manulife Corp 3.80% Ser 13 (MFC.PR.K)	30
Manulife Corp 4.00% Ser 11 (MFC.PR.J)	30
Manulife Corp 4.20% Ser 3 (MFC.PR.F)	30
Manulife Corp 4.40% Ser 5 (MFC.PR.G)	30
Manulife Corp 4.40% Ser 9 (MFC.PR.I)	30
Manulife Corp 4.60% Ser 7 (MFC.PR.H)	30
Manulife Corp 5.60% Ser 1 (MFC.PR.E)	30
Manulife Corp 6.60% Ser 4 (MFC.PR.D)	30
Manulife Financial 4.50% S. 3 (MFC.PR.C)	26
Manulife Financial 4.65% S. 2 (MFC.PR.B)	26
National 3.80% Ser. 28 (NA.PR.Q)	30
National 6.6% Ser. 24 (NA.PR.O)	30
National 6.6% Ser. 26 (NA.PR.P)	30
National Bank 4.85% S.16 (NA.PR.L)	25
National Bank 6.00% S.20 (NA.PR.M)	25
New Commerce Split 7.50% Class I (YCM.PR.A)	38
New Commerce Split 7.50% Class II (YCM.PR.B)	38

Newgrowth Corp. Ser 2 6.0% (NEW.PR.C)	39
Northland Power Inc. 5.00% Ser 3 (NPI.PR.C)	31
Northland Power Inc. 5.25% Ser 1 (NPI.PR.A)	31
Partners Value Split 4.35% Class AA (BNA.PR.C)	38
Partners Value Split 4.85% Class AA Ser 5 (BNA.PR.E)	38
Partners Value Split 4.95% Class AA (BNA.PR.B)	38
Partners Value Split 7.25% Class AA Ser 4 (BNA.PR.D)	38
Pembina Pipeline 4.25% Ser 1 (PPL.PR.A)	31
Pembina Pipeline 4.70% Ser 3 (PPL.PR.C)	31
Pembina Pipeline 5.00% Ser 5 (PPL.PR.E)	31
Power Corp. 1986 Series (POW.PR.F)	35
Power Corp. 5.00% Ser.D (POW.PR.D)	26
Power Corp. 5.35% Ser.B (POW.PR.B)	26
Power Corp. 5.60% Ser.A (POW.PR.A)	26
Power Corp. 5.60% Ser.G (POW.PR.G)	26
Power Corp. 5.80% Ser.C (POW.PR.C)	26
Power Financial Corp 4.20% Ser T (PWF.PR.T)	30
Power Financial Corp 4.40% Ser P (PWF.PR.P)	30
Power Finl. 4.80% Ser. S (PWF.PR.S)	26
Power Finl. 4.95% Ser. K (PWF.PR.K)	26
Power Finl. 5.10% Ser. L (PWF.PR.L)	26
Power Finl. 5.25% Ser. E (PWF.PR.F)	26
Power Finl. 5.50% Ser. D (PWF.PR.E)	26
Power Finl. 5.50% Ser. R (PWF.PR.R)	26
Power Finl. 5.75% Ser. H (PWF.PR.H)	26
Power Finl. 5.80% Ser. O (PWF.PR.O)	26
Power Finl. 5.90% Ser. F (PWF.PR.G)	26
Power Finl. 6.00% Ser. I (PWF.PR.I)	26
Power Finl. Ser. A (PWF.PR.A)	35
Premium Income Corp 5.75% (PIC.PR.A)	39
Prime Dividend (PDV.PR.A)	39
R Split III Corp. 4.25% (RBS.PR.B)	38
Riocan REIT 4.70% Series C (ROC) (REL.PR.C)	31
Riocan REIT 5.25% Series A (ROC) (REL.PR.A)	31
Rona Inc. 5.25% Ser 6 Class A (RON.PR.A)	31
Royal Bank 4.45% Ser. AA (RY.PR.A)	25
Royal Bank 4.45% Ser. AF (RY.PR.F)	25
Royal Bank 4.50% Ser. AD (RY.PR.D)	25
Royal Bank 4.50% Ser. AE (RY.PR.E)	25
Royal Bank 4.50% Ser. AG (RY.PR.G)	25
Royal Bank 4.60% Ser. AC (RY.PR.C)	25
Royal Bank 4.70% Ser. AB (RY.PR.B)	25
Royal Bank 4.90% Ser. W (RY.PR.W)	26

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Royal Bank 5.00% Ser. AJ (RY.PR.I)	30
Royal Bank 5.60% Ser. AL (RY.PR.L)	30
Royal Bank 6.10% Ser. AX (RY.PR.Y)	30
Royal Bank 6.25% Ser. AN (RY.PR.N)	31
Royal Bank 6.25% Ser. AP (RY.PR.P)	31
Royal Bank 6.25% Ser. AR (RY.PR.R)	31
Royal Bank 6.25% Ser. AT (RY.PR.T)	31
Royal Bank 6.25% Ser. AV (RY.PR.X)	31
S Split Corp. 5.25% (SBN.PR.A)	38
Shaw Comm Inc. 4.50% Ser A (SJR.PR.A)	31
Sun Life Fin. 4.45% Ser. 3 (SLF.PR.C)	26
Sun Life Fin. 4.45% Ser. 4 (SLF.PR.D)	26
Sun Life Fin. 4.50% Ser. 5 (SLF.PR.E)	26
Sun Life Fin. 4.75% Ser. 1 (SLF.PR.A)	26
Sun Life Fin. 4.80% Ser. 2 (SLF.PR.B)	26
Sun Life Financial Inc. 3.90% Ser. 10R (SLF.PR.H)	31
Sun Life Financial Inc. 4.25% Ser. 12R (SLF.PR.I)	31
Sun Life Financial Inc. 4.35% Ser. 8R (SLF.PR.G)	31
Sun Life Financial Inc. 6.00% Ser. 6R (SLF.PR.F)	31
Talisman Energy Inc 4.20% Ser 1 (TLM.PR.A)	31
TD Bank 3.371% Ser. S (TD.PR.S)	31
TD Bank 3.5595% Ser. Y (TD.PR.Y)	31
TD Bank 4.85% Ser. O (TD.PR.O)	25
TD Bank 5.25% Ser. P (TD.PR.P)	25
TD Bank 5.60% Ser. Q (TD.PR.Q)	25
TD Bank 5.60% Ser. R (TD.PR.R)	25
TD Bank 6.25% Ser. AE (TD.PR.E)	31
TD Bank 6.25% Ser. AG (TD.PR.G)	31
TD Bank 6.25% Ser. AI (TD.PR.I)	31
TD Bank 6.25% Ser. AK (TD.PR.K)	31
TD Bank Ser T (TD.PR.T)	35
TD Bank Ser Z (TD.PR.Z)	35
TD Split Inc. Ser. C 4.75% (TDS.PR.C)	38
TDb Split Inc. 5.25% (XTD.PR.A)	38
Thomson Reuters Ser. II (TRI.PR.B)	35
Top 10 Split Trust 6.25% (TXT.PR.A)	38
TransAlta 4.60% Corp Ser A (TA.PR.D)	31
TransAlta 4.60% Corp Ser C (TA.PR.F)	31
TransAlta 5.00% Corp Ser E (TA.PR.H)	31
TransCanada 5.6% Ser. Y (TCA.PR.Y)	26
TransCanada Corp 4.00% Ser 3 (TRP.PR.B)	31
TransCanada Corp 4.00% Ser 7 (TRP.PR.D)	31
TransCanada Corp 4.25% Ser 9 (TRP.PR.E)	31

TransCanada Corp 4.40% Ser 5 (TRP.PR.C)	31
TransCanada Corp 4.60% Ser 1 (TRP.PR.A)	31
Transcontinental Inc 6.75% Ser. D (TCL.PR.D)	31
US Financial 15 Split 2012 Pref 5.25% (FTU.PR.B)	39
Utility Split Trust 5.25% Class B (UST.PR.B)	38
Valener Inc. 4.35% Ser A (VNR.PR.A)	31
Veresen Inc 4.40% Ser A (VSN.PR.A)	31
Veresen Inc 5.00% Ser C (VSN.PR.C)	31
Westcoast 5.50% Ser. 7 (W.PR.H)	26
Westcoast 5.60% Ser. 8 (W.PR.J)	26
World Financial Split 5.25% (WFS.PR.A)	39

Guide to Preferred Shares

Important Disclosures

This report has been prepared by members of the ScotiaMcLeod Portfolio Advisory Group. ScotiaMcLeod is the full service retail division of Scotia Capital Inc

The author(s) of the report own(s) securities of the following companies.

Bank of Nova Scotia,

The supervisors of the Portfolio Advisory Group own securities of the following companies.

Bank of Nova Scotia,

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Ronald Brenneman is a director of BCE Inc and is a director of the Bank of Nova Scotia. BCE Inc.

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The issuer paid a portion of the travel-related expenses incurred by the Fundamental Research Analyst/Associate to visit material operations of the following issuer(s): IAMGOLD Corporation

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The Fundamental Research Analyst/Associate has visited material operations of the following issuer(s): Aimia, BCE Inc., Brookfield Office Properties, Canaccord Genuity Group Inc., Capital Power Corporation, Capstone Infrastructure Corporation, Enbridge Inc., GMP Capital Inc., Great-West Lifeco Inc., IAMGOLD Corporation, Industrial-Alliance Insurance and Financial Services Inc., Manulife Financial Corporation, RONA Inc., Sun Life Financial Inc., Thomson Reuters Corporation, TransAlta Corporation

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This issuer owns 5% or more of the total issued share capital of The Bank of Nova Scotia, Bank of Montreal, Canadian Imperial Bank of Commerce, Royal Bank of Canada, Toronto-Dominion Bank

Scotiabank has been retained as financial advisor by Talisman Energy Inc. for the sale of select Montney assets in British Columbia. Talisman Energy Inc.

Comparative Canadian Bank Information				
Bank	Symbol	Scotia Capital Recommendation	Risk Ranking	1-Yr. Target
Bank of Montreal	BMO	n/a	n/a	n/a
Bank of Nova Scotia	BNS	n/a	n/a	n/a
CIBC	CM	n/a	n/a	n/a
National Bank	NA	n/a	n/a	n/a
Royal Bank	RY	n/a	n/a	n/a
Toronto-Dominion Bank	TD	n/a	n/a	n/a

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