

Guide to Preferred Shares

Insightful Perspectives from ScotiaMcLeod[®],
a division of Scotia Capital Inc.

2016 Edition

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To see if investing in preferred shares is right for your situation and financial goals, talk to your Scotia Wealth Management Advisor or visit www.scotiawealthmanagement.com

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Introduction

Market Overview

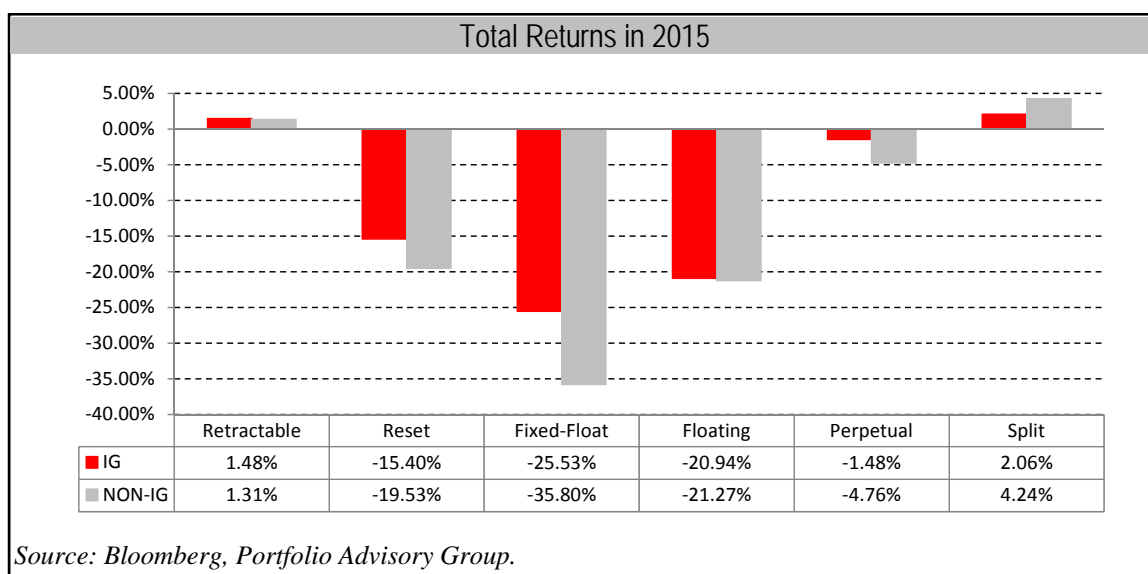
Preferred Shares Respond to Low Interest Rates and Wider Credit Spreads

Preferred shares prices suffered throughout most of 2015, with the exception of the fourth quarter, yet the modest rebound did not make up for the price depreciation experienced since the start of the year. There were a number of factors which affected the performance of the preferred share market including: (1) low interest rate environment (2) widening of credit spreads (3) new issuance (4) ETF buying and selling. With the prices of preferred shares being in a state of volatility throughout the year and with many dropping more than anticipated, a negative sentiment was created within the asset class.

On a global basis, there continued to be movement into safe assets throughout the year, as growth slowed in China and weakness was seen in the commodity and manufacturing sectors. On December 16th the Federal Reserve increased the Fed Funds rate by 0.25% for the first time since 2006. Canadian markets were largely influenced by the price of oil with monetary policy diverging from the U.S. counterparts leading to more accommodative measures.

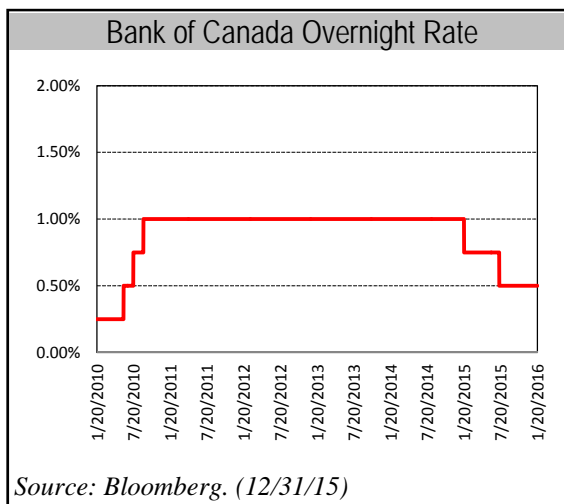
Overall, the S&P/TSX Preferred Share Index declined by -19.31% on a price basis (not including dividend payments) in 2015 and -14.95% on a total return basis. Performance of rate reset preferred shares can be depicted by the S&P/TSX Preferred Share Laddered Index which fell by -23.84% in 2015, and declined by -19.63% on a total return basis. In comparison, the corporate bond market (DEX Corporate Bond Index +2.71%) and the Canadian equity market (S&P/TSX Composite Index -8.32%) outperformed and provided investors with better returns over the year versus preferred shares.

As seen in the chart below, it was only the retractables and split shares that delivered positive returns over the year, although fixed perpetuals also outperformed the market. On a credit basis, investment grade (IG) credit names performed better than non-investment grade (Non IG) credits; the opposite as to what occurred the year prior (2014). A new “minimum dividend” feature was included in non-financial rate reset preferred shares that were issued in the latter half of the year which put additional pressure on existing rate resets without such feature. Minimum dividend rate resets currently account for 1.60% of the preferred share market.



This was the second year in a row that fixed perpetual preferred shares outperformed the rest of the market. These securities have a long duration (no maturity date) and prices are inversely related to moves in long-term interest rates. Year-over-year the 30-year Government of Canada bond yield declined by -0.19%, which had a positive effect on the price of these securities. However, the move in the underlying benchmark yields was not enough to offset the amount by which credit spreads widened, amounting to negative performance over the year. On a securities basis, it was the non-NVCC bank perpetual preferred shares which were among the best performers as it is expected that these will get redeemed prior to 2022 as they will no longer qualify as Tier 1 Capital due to Basel III regulations. On the flip side, the worst performers among fixed perpetuals were some of the newly issued NVCC perpetuals as well as insurance perpetuals which had low dividend rates. (See page 11 for full definition of NVCC products).

Floating rate preferred shares were one of the worst performers in 2015. Floating rate preferred shares pay investors a dividend which varies on a monthly/quarterly basis depending on current 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. However in 2015, the Bank of Canada cut the overnight rate by 0.50% (0.25% in January & 0.25% in July) to help stimulate the economy. With short-term interest rates moving lower, the dividend income on floating rate preferred shares was adjusted lower and prices declined. With the Canadian economy continuing to struggle and the price of oil near US\$30/barrel, there still remain concerns about additional cuts to the overnight rate. Additionally, the size of the floating rate sector expanded in 2015 as new floating rate preferred shares were created as rate resets extended. With the interest rate environment warranting limited demand for floaters the increased supply of floating rate products has contributed to the underperformance of this type of preferred share. Currently the floating rate sector accounts for 7.25% of the market, up from 6% the previous year.



Rate reset preferred shares make up the majority (60%) of the preferred share market and the negative performance experienced during 2015 helped drag the Index lower. The price moves seen in this sector can be described as volatile with significant price moves on a daily basis. One of the main drivers affecting the performance of the rate reset shares has been the low interest rate environment as the 5-year Government of Canada bond yield acts as a base rate when rate reset securities adjust their dividend rate. As a reference, year-over-year the 5-year Government of Canada bond yield moved lower by -0.60% and finished the year at 0.73%.

Over the course of the year there were 14 rate resets that were extended and only 2 rate resets which were redeemed. The redeemed securities included; a non-NVCC bank rate reset, and an early redemption due to an acquisition. As rate resets extended throughout the year the new fixed dividend rate was calculated based on the current 5-year yield plus the reset spread associated with each security. As the base rate (5-year Government bond yield) was much lower than when these securities were issued (~2010), the new fixed dividend rates announced were much lower than the initial dividend rate. On average the new fixed dividend rates were -38% lower than the initial rates. Prices moved lower accordingly to reflect the new lower future cash flows. The potential for lower cash flow in the future not only affected those which had reset dates in 2015 but also preferred shares with reset dates in 2016 and 2017.

The individual performance of the each rate reset was a function of numerous factors including: time to reset, reset spread, minimum feature, & company specific credit risk. The worst performing rate resets in 2015 were those that were considered non-investment grade as well as securities which had an upcoming reset date with a low reset spread. On a broad basis the rate resets that performed the best over the year were those that included the new minimum dividend feature as well as non-NVCC bank preferred shares.

Non-NVCC bank rate resets performed better than the rest of the sector as there is an expected end date as these products will no longer qualify as Tier 1 Capital post 2022. Therefore, they trade on a yield to call basis rather than current yield. The minimum dividend feature was included in non-bank rate resets that were issued after September to try and renew sentiment about the rate reset product following the complaints about the dramatic dividend adjustment that was occurring as resets extended. With investors having the comfort of knowing the dividend rate would never adjust lower than the initial rate, even as 5-year yields moved lower, the price of the minimum dividend products held in better than existing rate resets.

Tax loss selling was a popular theme in 2015, as investors looked to crystalize losses on some of their preferred share holdings. With the steep decline in prices occurring during the first three quarters, tax loss selling started in mid-year with some investors selling and exiting the asset class all together. In the last two months of the year, although there continued to be tactical selling for tax purposes, there seemed to be more switches occurring within the asset class rather than outright selling. Following the tax loss selling deadline, the preferred share market rallied by +3.48% to finish the year.

In 2016, there are 22 rate resets that can be redeemed or extended. Based on the current credit spread environment it is expected that all of the resets get extended out to 2021. These extensions also allow the opportunity for new floating rate counterparts to be created. Without a large redemption schedule expected the size of the preferred share market has the potential to expand on the back of new issuance. The preferred share market is expected to continue to fluctuate based on supply/demand of product, as well as underlying interest rate movements and credit spreads.

Interest Rate Movement

On a year-over-year basis, the Government of Canada yield curve steepened in shape as we saw yields move lower across the curve with larger moves seen in short dated securities. In the short-end of the curve (< 5-year maturities) yields moved lower by -0.43% – 0.60% as the Bank of Canada cut the overnight rate twice during the year. These moves were a detriment to the pricing on rate resets and floating rate preferred shares. In the long-end the 30-year Government of Canada bond yield moved lower by -0.19% which had a positive influence on the price of fixed perpetual preferred shares.

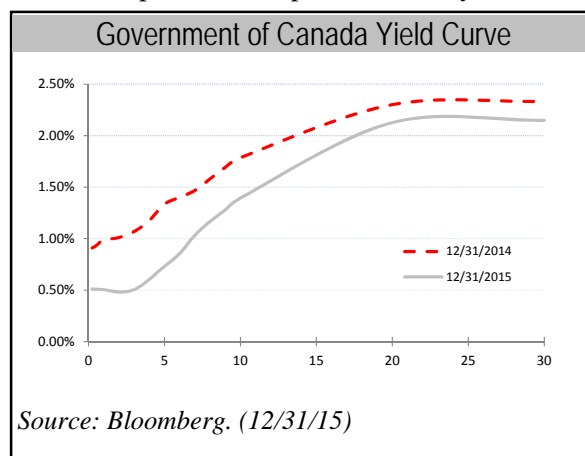
Preferred shares are interest rate sensitive products and as yields shifted lower year-over-year the price of fixed dividend long dated preferred shares appreciated yet those securities, which reset over a lower base rate (5-year Canada/90-Day T-Bill) declined. Over the next year,

the fate of interest rates will depend on the state of the global economy. With this in mind, it is important to understand how the different types of preferred shares will perform in various interest rate environments.

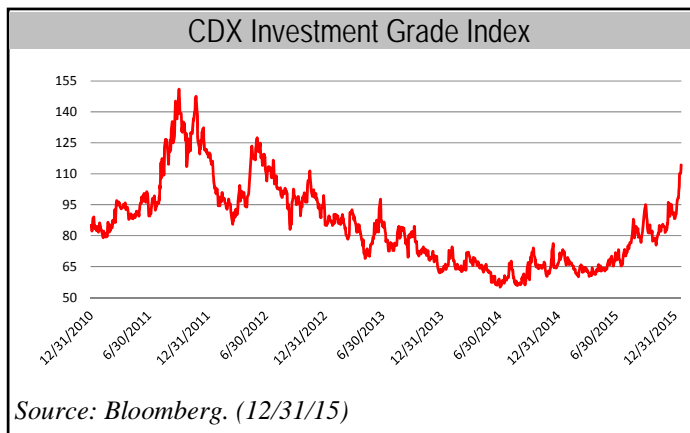
Credit Spreads

The widening of credit spreads was also a key factor that affected the price of the preferred share market throughout 2015. Credit spreads can be defined as the yield pick-up over the relevant benchmark Government bond and are representative of investors' risk appetite. One measure of credit spreads, in general, is the Credit Default Swap (CDX) index. This index is made up of 125 investment grade corporate bond names and has become a popular measure of the market's risk appetite. This index essentially represents the cost of insuring this basket against default.

As seen in the graph, the CDX Index moved higher year-over-year as it started 2015 at 0.66% and finished the year at 0.88% which represents the overall theme of widening credit spreads driven by decreased appetite for risk globally. With preferred shares ranking lower than corporate bonds in the corporate structure, credit spreads



widened to a greater extent in preferred share products as investors required a higher yield to compensate them for holding this asset class. As a gauge of credit spreads in the preferred share market, the reset spreads associated with different securities can be evaluated. In January of 2015, Royal Bank of Canada issued a NVCC rate reset with a reset spread of 2.74% while by December 2015 credit spreads had widened and Royal Bank of Canada had to issue a NVCC rate reset with a reset spread of +4.53%. Looking ahead, a stronger global economy and a higher risk appetite should allow credit spreads to tighten from current levels.



New Issuance

Total preferred share new issuance was approximately \$7.6 billion in 2015 which was 38% lower than the issuance in 2014. For the second year in a row, financial issuance contributed to the majority of the issuance (63%) with three of the banks dominating the list as shown in the table below. The NVCC feature which is now required by banks, comprised 57% of the total issuance, and in 2015 there were both NVCC rate resets as well as NVCC fixed perpetuals issued from the banks. With respect to credit quality, 81% of the issuance in 2015 was considered investment grade while 19% was non-investment grade, which is the same credit breakdown seen in 2014.

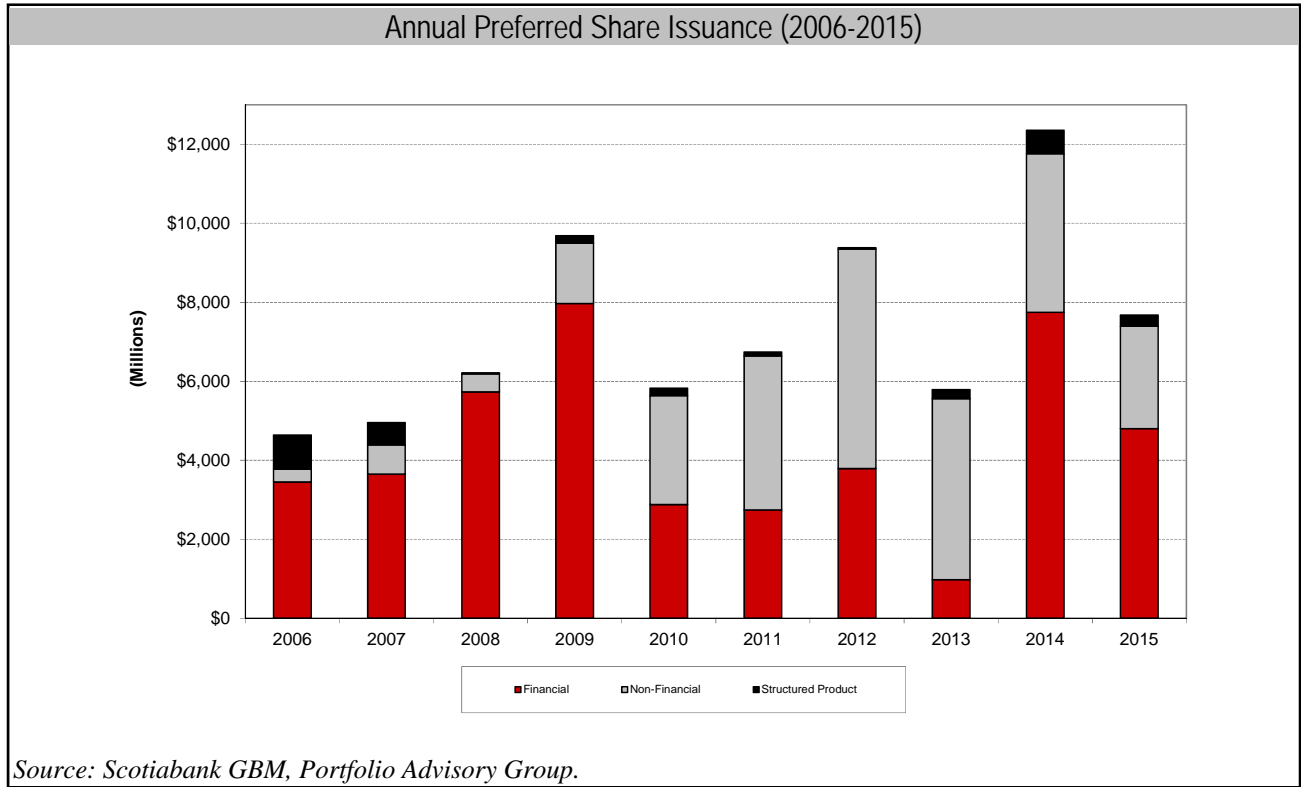
The rate reset structure continued to be the most popular type of security and represented 82% of the new issue market in 2015. There was also a new “minimum dividend” feature that was included in 25% of the rate reset issues. The average reset spread was 5-year Government of Canada bond yield + 3.78%. This past year the fixed rate perpetual sector made up 15% of the issuance across 7 securities.

Royal Bank of Canada was both the most active issuer and raised the most funds in the preferred share market during the past year. Bank of Montreal came in 2nd of which \$600 million was issued via a private placement.

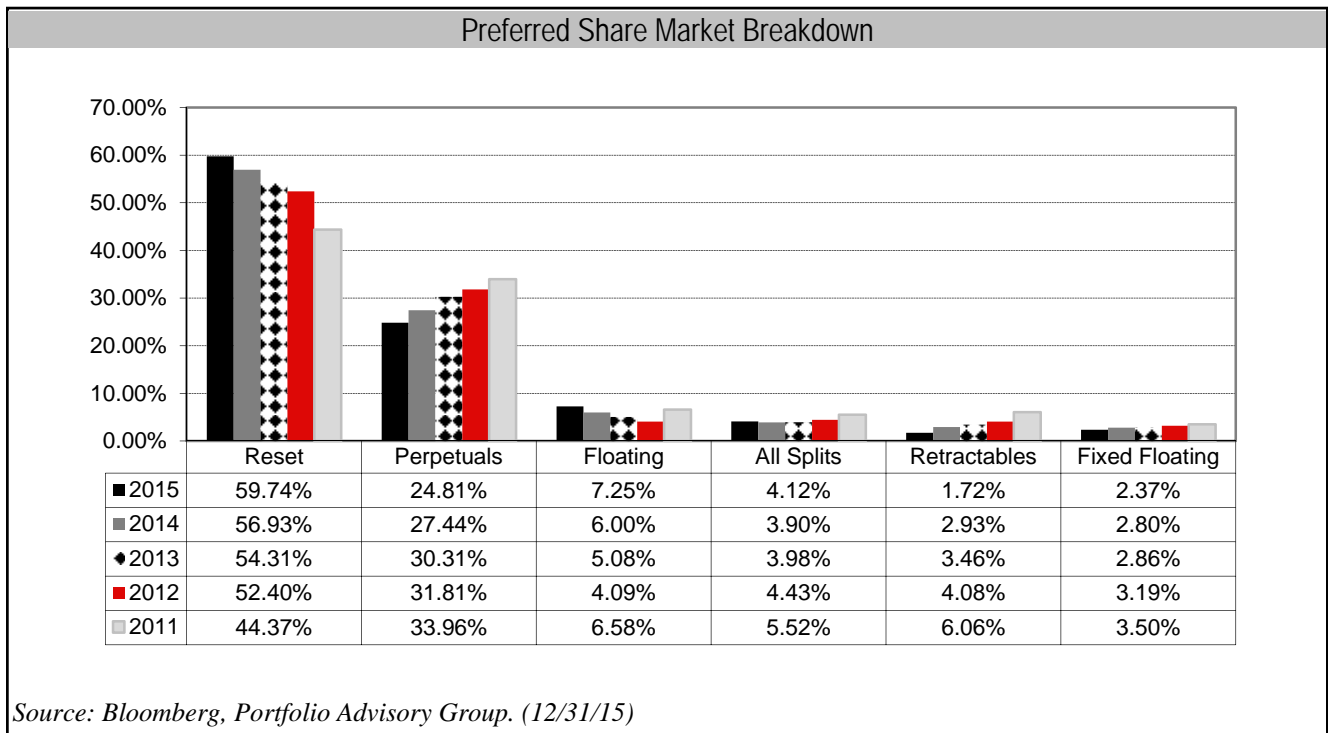
One theme that was dramatically different in 2015 compared with 2014 was the limited amount of redemptions that occurred within the preferred share market. The added supply via new issuance yet limited redemptions, caused the Canadian preferred share market to grow to a market cap of approximately \$70 billion. However, it also triggered an oversupply of product in an environment with a weakened demand leading to lower prices in the preferred share market.

Top Issuance from 2015			
Issuer	2015 Issuance	# of Issues	% of Total Issuance
Royal Bank	\$2,075	6	27%
Bank of Montreal	\$950	3	12%
TD-Bank	\$700	3	9%
Canadian Utilities	\$375	2	5%
Husky Energy	\$350	2	5%
Bank of Nova Scotia	\$350	1	5%

Source: Portfolio Advisory Group



The rate reset structure which only originated in 2008, now contributes to 60% of the Canadian preferred share market and continues to expand each year as seen in the following graph. NVCC rate resets now contribute to 12% of the preferred share market while the new ‘minimum dividend’ rate resets are only 1.60% of the market. Another sector of the market that is expanding is the floating rate sector, as new floating rate securities have been created as rate resets extend past the initial reset date. The floating rate sector is expected to continue to grow in size as all 2016 rate resets are expected to be extended.



The fixed rate perpetual sector on the other hand is shrinking in size and now accounts for only 25% of the market. The complete breakdown of the types of preferred shares within the market can be seen in the chart on the previous page.

Overall, demand for new issue preferred shares was very dependant on the name of the issuer, credit quality, type of preferred share and the reset spread offered. Due to the low interest rate, wide credit spread environment, companies were forced to issue rate resets with a high dividend rate which correlates to a high reset spread. This issuance (with more attractive terms) sent the prices of existing rate resets lower as existing securities have lower spreads and potentially a weaker credit quality. The price drop occurred in order to generate a yield which would be considered relatively attractive compared to the yield offered on the new issue. Additionally, as the ‘minimum dividend’ feature was included in various non-bank rate resets, investors chose to move out of rate resets that did not include this provision and into the new product.

Preferred Shares Redeemed and New Issues (Annually)			
Year	Redemptions	New Issues	Difference
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
2014	\$10,261,959,404	\$12,352,321,116	\$2,090,361,712
2015	\$3,115,222,872	\$7,673,144,600	\$4,557,921,728
TOTAL '06-'15	\$33,316,335,286	\$78,740,414,583	\$45,424,079,297
Average	\$3,028,757,753	\$7,354,174,206	

Source: Portfolio Advisory Group.

Looking forward, the new issue market in 2016 is expected to remain active with NVCC products issued from the banks and non-financial issuers continuing to use the preferred share market as a means of financing.

Preferred Share Issuance in 2015

Issue	Symbol	Credit		Type	Listing Date	Size (\$MM)	Issue Price	Type of Distribution	Dividend/ Distribution	Issue Yield	Reset Spread
		DBRS	S&P								
Royal Bank of Canada Ser BD	RY.PR.J	Pfd-2	P-2	NVCC Reset	30-Jan-15	\$600	\$25.00	Dividend	\$0.90	3.60%	5-yr CAN +2.74%
TransCanada Corp Ser 11	TRP.PR.G	Pfd-2L	P-2	Rate Reset	2-Mar-15	\$250	\$25.00	Dividend	\$0.95	3.80%	5-yr CAN +2.96%
Fairfax Financial Holdings Ser M	FFH.PR.M	Pfd-3	P-3	Rate Reset	3-Mar-15	\$230	\$25.00	Dividend	\$1.19	4.75%	5-yr CAN +3.98%
Toronto-Dominion Bank Ser 7	TD.PF.D	Pfd-2	P-2	NVCC Reset	10-Mar-15	\$350	\$25.00	Dividend	\$0.90	3.60%	5-yr CAN +2.79%
Canadian Imperial Bank of Canada Ser 43	CM.PR.Q	Pfd-2	P-3 (H)	NVCC Reset	11-Mar-15	\$300	\$25.00	Dividend	\$0.90	3.60%	5-yr CAN +2.79%
Brookfield Infrastructure Partners LP Ser 1	BIP.PRA	--	P-2 (L)	Rate Reset	12-Mar-15	\$125	\$25.00	Inc/ROC	\$1.13	4.50%	5-yr CAN +3.56%
Husky Energy Inc Ser 5	HSE.PR.E	Pfd-2L	P-2 (L)	Rate Reset	12-Mar-15	\$200	\$25.00	Dividend	\$1.13	4.50%	5-yr CAN +3.57%
Royal Bank Ser BF	RY.PR.M	Pfd-2	P-2	NVCC Reset	13-Mar-15	\$300	\$25.00	Dividend	\$0.90	3.60%	5-yr CAN +2.62%
Veresen Inc. Ser E	VSN.PR.E	Pfd-3	P-3 (H)	Rate Reset	1-Apr-15	\$200	\$25.00	Dividend	\$1.19	4.75%	5-yr CAN +4.27%
Pembina Pipeline Ser 9	PPL.PR.I	Pfd-3	P-3 (H)	Rate Reset	10-Apr-15	\$225	\$25.00	Dividend	\$1.19	4.75%	5-yr CAN +3.91%
Toronto-Dominion Bank Ser 9	TD.PF.E	Pfd-2	P-2	NVCC Reset	24-Apr-15	\$200	\$25.00	Dividend	\$0.93	3.70%	5-yr CAN +2.87%
Element Financial Ser G	EFN.PR.G	Pfd-3	--	Rate Reset	29-May-15	\$173	\$25.00	Dividend	\$1.63	6.50%	5-yr CAN +5.34%
Royal Bank of Canada Ser BH	RY.PR.N	Pfd-2	P-2	NVCC Perpetual	5-Jun-15	\$150	\$25.00	Dividend	\$1.23	4.90%	--
Bank of Montreal Ser 33	BMO.PR.Y	Pfd-2	P-3 (H)	NVCC Reset	5-Jun-15	\$200	\$25.00	Dividend	\$0.95	3.80%	5-yr CAN +2.71%
Loblaw Ltd. Ser B	L.PR.B	Pfd-3	P-3 (H)	Perpetual	9-Jun-15	\$225	\$25.00	Dividend	\$1.33	5.30%	--
Husky Energy Inc Ser 7	HSE.PR.G	Pfd-2L	P-2 (L)	Rate Reset	17-Jun-15	\$150	\$25.00	Dividend	\$1.15	4.60%	5-yr CAN +3.52%
Toronto-Dominion Bank Ser 11	TD.PF.F	Pfd-2	P-2	NVCC Perpetual	21-Jul-15	\$150	\$25.00	Dividend	\$1.23	4.90%	--
Royal Bank of Canada Ser BI	RY.PR.O	Pfd-2	P-2	NVCC Perpetual	22-Jul-15	\$150	\$25.00	Dividend	\$1.23	4.90%	--
Bank of Montreal Ser 35	BMO.PR.Z	Pfd-2	P-3 (H)	NVCC Perpetual	29-Jul-15	\$150	\$25.00	Dividend	\$1.25	5.00%	--
Canadian Utilities Limited Ser EE	CJ.PR.H	Pfd-2H	P-2 (H)	Perpetual	7-Aug-15	\$125	\$25.00	Dividend	\$1.31	5.25%	--
Canadian Utilities Limited Ser FF	CJ.PR.I	Pfd-2H	P-2 (H)	Minimum Rate Reset	24-Sep-15	\$250	\$25.00	Dividend	\$1.13	4.50%	5-yr CAN +3.69%
Royal Bank of Canada Ser BJ	RY.PR.P	Pfd-2	P-2	NVCC Perpetual	2-Oct-15	\$150	\$25.00	Dividend	\$1.31	5.25%	--
Brookfield Asset Management Ser 44	BAM.PF.H	Pfd-2L	P-2	Minimum Rate Reset	2-Oct-15	\$250	\$25.00	Dividend	\$1.25	5.00%	5-yr CAN +4.17%
Bank of Montreal Ser 36	NVA	Pfd-2	P-3 (H)	Private Rate Reset	16-Oct-15	\$600	\$100.00	Dividend	\$5.85	5.85%	5-yr CAN +4.97%
AltaGas Ltd Ser I	ALA.PR.I	Pfd-3	P-3 (H)	Minimum Rate Reset	23-Nov-15	\$200	\$25.00	Dividend	\$1.31	5.25%	5-yr CAN +4.19%
Brookfield Renewable Energy Partners L.P. Ser 7	BEP.PR.G	Pfd-3H	P-3 (H)	Minimum Rate Reset	25-Nov-15	\$175	\$25.00	Div/Int/ROC	\$1.38	5.50%	5-yr CAN +4.47%
Brookfield Infrastructure Partners L.P. Ser 3	BIP.PR.B	--	P-2 (L)	Minimum Rate Reset	8-Dec-15	\$125	\$25.00	Inc/ROC	\$1.38	5.50%	5-yr CAN +4.53%
Westcoast Energy Inc Ser 10	W.PR.K	Pfd-2L	P-3 (H)	Minimum Rate Reset	15-Dec-15	\$115	\$25.00	Dividend	\$1.31	5.25%	5-yr CAN +4.26%
Royal Bank of Canada Ser BK	RY.PR.Q	Pfd-2	P-2	NVCC Reset	16-Dec-15	\$725	\$25.00	Dividend	\$1.38	5.50%	5-yr CAN +4.53%
Bank of Nova Scotia Ser 34	BNS.PR.E	Pfd-2	P-2 (L)	NVCC Reset	17-Dec-15	\$350	\$25.00	Dividend	\$1.38	5.50%	5-yr CAN +4.51%
Total						\$7,393		Average	4.78%	5-yr CAN +3.78%	
Brompton Oil Split Corp	OSP.PRA	Pfd-3H	--	Split	24-Feb-15	\$28	\$10.00	Dividend	\$0.50	5.00%	
Life & Banc Split Corp	LBS.PRA	Pfd-3L	--	Split	7-Apr-15	\$13.29	\$10.05	Dividend	\$0.48	4.75%	
Canadian Banc Corp	BK.PRA	Pfd-3H	--	Split	17-Apr-15	\$13.20	\$10.00	Dividend	\$0.50	5.00%	
Dividend 15 Split II	DF.PRA	Pfd-3L	--	Split	7-May-15	\$27.00	\$10.00	Dividend	\$0.53	5.25%	
Dividend Growth Split	DGS.PRA	Pfd-3	--	Split	5-Jun-15	\$22.00	\$10.00	Dividend	\$0.53	5.25%	
North American Financial	FFN.PRA	Pfd-4H	--	Split	12-Jun-15	\$13.80	\$10.00	Dividend	\$0.53	5.25%	
Life & Banc Split Corp	LBS.PRA	Pfd-3L	--	Split	7-Jul-15	\$18.79	\$10.10	Dividend	\$0.48	4.75%	
BNS Split Corp II	BSC.PR.C	Pfd-2	--	Split	22-Sep-15	\$11.22	\$19.17	Dividend	\$0.79	4.00%	
Partners Value Split Corp Ser. 7	PVS.PR.E	Pfd-2L	--	Split	29-Oct-15	\$100.00	\$25.00	Dividend	\$1.38	5.50%	
Financial 15 Split Corp Ser.	FTN.PRA	Pfd-4H	--	Split	4-Dec-15	\$33.35	\$10.00	Dividend	\$0.53	5.25%	
Total						\$7,673					

Source: Bloomberg, Portfolio Advisory Group.

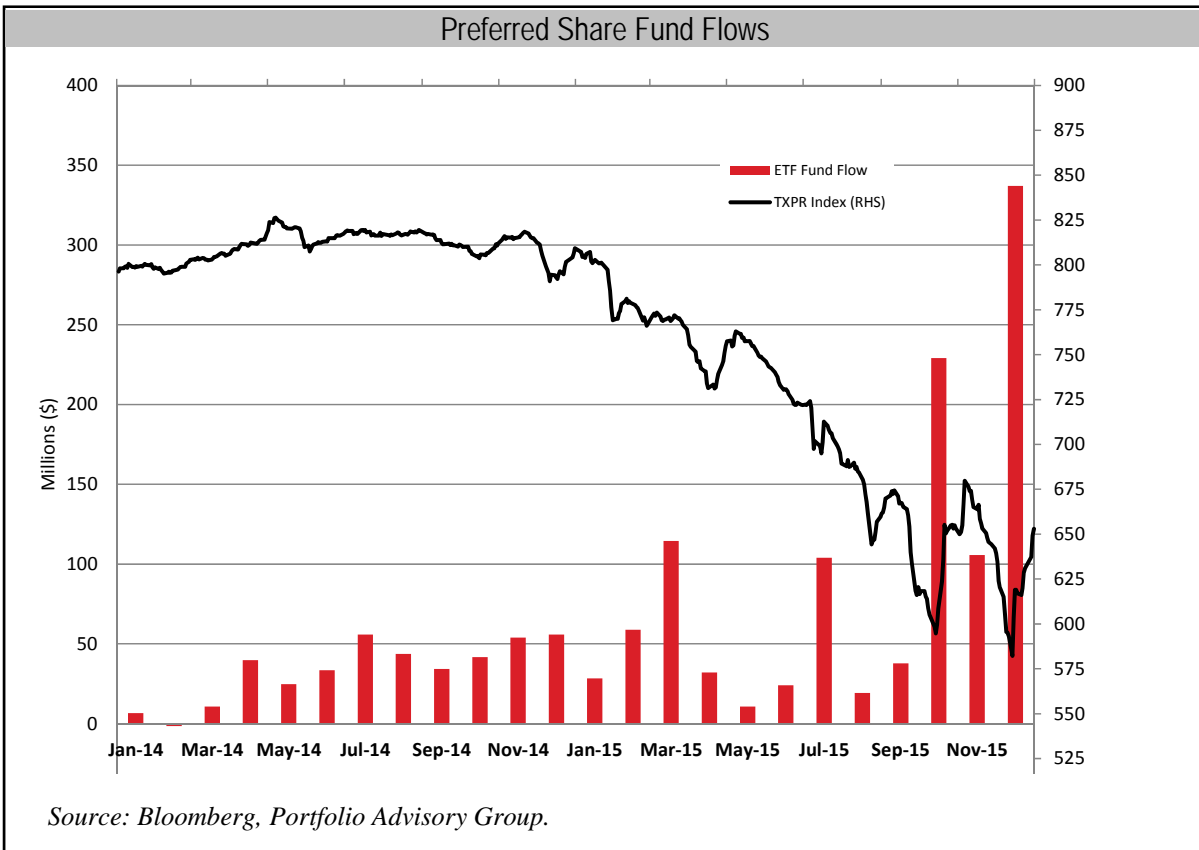
Preferred Share ETF Fund Flow Affects Pricing

This past year the strength and weakness of the preferred share market correlated closely to the amount of funds that were investing in various preferred share ETF's that month. An illiquid market such as the preferred share market is easily influenced by large amounts of buying and selling.

Many institutional investors became interested in the preferred share market this past year due to the attractive yields offered. However, due to the difficulty of buying large volumes of individual securities, large institutions purchased preferred share ETF's to gain exposure to the asset class. When funds are invested in ETF's, all the individual underlying basket of securities are purchased in the market within a short time frame, sometimes regardless of the price. This aggressive buying/selling can lead to wide price swings on individual securities especially in an illiquid market. In the months of October and December there were \$229 million and \$337 million invested in preferred share ETF's which correlated to the S&P/TSX Preferred Share Index displaying positive returns (5.74% - Oct, 2.30% - December) as see in the diagram below.

During the fourth quarter of 2015, there were approximately \$671 million of preferred share ETF creations, which represents 61% of the total funds invested throughout the entire year. While this large investment sum entering a small illiquid market caused volatility and boosted prices, the opposite happens when ETF selling or redemptions occur. On the bank of new preferred share issuance, large holders will sometimes sell a portion of their ETF holding and use the proceeds for the new issue.

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



Non-Viable Contingent Capital (NVCC)

Following the financial crisis, regulators have created a new internal framework that 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 financial 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).

The Canadian banks have worked with the regulator (OSFI) to create a preferred share structure (NVCC) that adheres to the new criteria and will therefore qualify as Tier 1 Capital on a bank's balance sheet. Now, when the banks issue a preferred share there must be a feature which allows a regulator to force the conversion of the preferred share into common shares in certain circumstances (trigger event).

Trigger Event: OSFI has defined the following circumstances as constituting a “trigger event”.

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 conversion formula.

NVCC preferred shares were first issued in 2014 and now attribute to 13% of the market. There are both fixed perpetual as well as rate reset preferred shares which contain the NVCC feature.

Included in the Basel III regulations, bank preferred shares which do not include the NVCC feature will no longer qualify as Tier 1 Capital post 2022. The capital treatment of the non-NVCC bank preferred shares is being phased out over a 10-year period (2013 – 2022). Accordingly, the banks have been redeeming a few of their non-NVCC preferred shares each year. In 2015, there were 7 bank fixed perpetual preferred shares redeemed amounting to \$1.67 billion. It is expected that by January 1, 2022 the banks will have redeemed the majority of their preferred shares which do not include the NVCC feature.

Non-NVCC Bank Rate Resets: There are currently 13 non-NVCC bank resets outstanding in the market with reset dates ranging from 2016 – 2021. The 2016 bank resets are likely to extend to 2021 as the reset spread is lower than current market conditions. This extension would still be compliant with Basel III, as existing bank preferred shares are being phased out over a 10 year period. The remaining bank resets are trading at much higher prices than non-bank securities with similar reset dates/reset spreads as the bank securities will likely be redeemed at the next reset date as they will no longer qualify as Tier 1 Capital post 2022.

Non-NVCC Bank Floating Rate: These have been created as the non-NVCC rate resets have extended past the initial reset dates. While the dividend of the floaters was reduced as the Bank of Canada lowered the overnight rate, the performance was much better than non-bank floating rate preferred shares. This is due to the expectation that the securities will be redeemed prior to 2022 as they will no longer qualify as Tier 1 Capital on the banks' balance sheet.

Non-NVCC Bank Fixed Perpetuals: These securities can be redeemed by the banks anytime at various prices relating to the call schedule of each security. As 2022 approaches, the banks will continue to redeem some of their outstanding non-NVCC perpetuals and 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.

Life Insurance Regulatory Framework

While it was initially expected that life insurance companies would be impacted by a similar regulation to Basel III, the language still states that as long as a security is perpetual in nature it qualifies on the company’s balance sheet. However, in December DBRS downgraded the insurance preferred shares and mentioned the complex and changing regulatory environment, “particularly in respect of evolving views on the definition of capital.” Insurance based preferred shares continue to trade similarly to other non-bank preferred shares, with no regulatory changes impacting the likelihood of future redemptions.

Economic Forecast

Scotia Economics believes that global growth should average 3.3% in 2016 and regain some traction if the combination of low borrowing costs, low commodity prices, and fiscal stimulus is able to translate into stronger momentum. The U.S. and the U.K are expected to lead the advances with expectations that the U.S. economy could grow by 2.5% with increased domestic spending, improved household balance sheets and improving job and income performances. Canadian growth output is expected to only advance by 1.6% in 2016 given the weak oil prices.

On January 20, 2016 the Bank of Canada maintained the overnight rate at 0.50% and mentioned that inflation in Canada is as expected. With the price of oil and other commodities still at depressed levels, it is not expected that the economy will return to above-potential growth until the second quarter of 2016. Scotiabank Economics is expecting that the Bank of Canada will keep the overnight target rate at 0.50% until the 3rd quarter of 2017. The complete forecast for the Government of Canada yield curve can be seen in the table below. Based on global market conditions there is the risk that yields do not move as aggressively as indicated in the table.

Scotia Economics Interest Rate Forecast									
	12/31/2015	16 Q1 f	16 Q2 f	16 Q3 f	16 Q4 f	17 Q1 f	17 Q2 f	17 Q3 f	17 Q4 f
Canada									
BoC Overnight Target Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%
Prime Rate	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%
3-month T-bill	0.51%	0.50%	0.50%	0.50%	0.50%	0.50%	0.55%	0.85%	1.10%
2-year Canada	0.48%	0.50%	0.65%	0.75%	0.90%	1.10%	1.25%	1.50%	1.80%
5-year Canada	0.73%	0.80%	0.90%	1.10%	1.35%	1.60%	1.75%	2.00%	2.20%
10-year Canada	1.39%	1.45%	1.50%	1.65%	1.80%	1.95%	2.10%	2.30%	2.50%
30-year Canada	2.15%	2.20%	2.30%	2.40%	2.45%	2.60%	2.60%	2.70%	2.95%

Source: Scotiabank GBM. (01/08/15)

Rating Changes

In 2015 there were numerous downgrades and only one upgrade. Element Financial also was granted a credit rating of Pfd-3 from DBRS when it was previously not rated. Most of the insurance preferred shares were downgraded by 1 notch in December following DBRS' new methodology for rating insurance companies. The methodology favors a notch differential between holding and operating company ratings. DBRS mentioned the complex and changing regulatory environment, "particularly in respect of evolving views on the definitions of capital." It was at this time that Co-operators was upgraded to Pfd-2L from Pfd-3H.

As widely anticipated, the credit rating of Enbridge Inc. was downgraded by one notch by both DBRS & S&P following the completion of the drop-down of assets to Enbridge Income Fund. S&P noted that the downgrade reflects the company's weak financial risk profile as continued large capital programs to expand would put pressure on financial metrics for the next several years. When DBRS downgraded Enbridge Inc. the reasoning included the new capital structure as well as the increased dividend payout ratio. As this rating change was widely anticipated by the market the yields/prices on Enbridge Inc. preferred share were already reflecting this news ahead of the formal announcement. Please refer to the table below for all the rating changes throughout 2015.

Rating Changes in 2015							
Issuer	Symbol	Type	Rating Agency	Date Changed	New Rating	Old Rating	Current Outlook
Aimia (Group Aeroplan)	AIM.PR.A, B & C	Reset & Floating	DBRS	31-Mar-15	Pfd-3L	Pfd-3	STABLE
Bombardier Inc.	BBD.PR.B, C & D	Fixed-Floater, Floating & Perp	S&P	12-Aug-15	P-5	P-5 (H)	NEG
Enbridge Inc.	ENB.PR.A, B, D, F, H, N, P, T, Y, J, U & V ; ENB.PF.A, B, C, E, G, U & V	Reset & Perp	DBRS	20-Aug-15	Pfd-3H	Pfd-2L	STABLE
Enbridge Inc.	ENB.PR.A, B, D, F, H, N, P, T, Y, J, U & V ; ENB.PF.A, B, C, E, G, U & V	Reset & Perp	S&P	19-Jun-15	P-2 (L)	P-2	STABLE
Element Financial	EFN.PR.A, C, E & G	Reset	DBRS	24-Sep-15	Pfd-3	NR	STABLE
Great-West Lifeco	GWO.PR.N, O, F, G, H, I, K, M, P, Q, R & S	Reset, Floating & Perp	DBRS	17-Dec-15	Pfd-2H	Pfd-1L	STABLE
Intact Financial Corp	IFC.PR.A & C	Reset	DBRS	17-Dec-15	Pfd-2	Pfd-2L	STABLE
Manulife Corp	MFC.PR.B, C, F, G, H, I, J, K, L, M & N	Reset & Perp	DBRS	17-Dec-15	Pfd-2	Pfd-2H	STABLE
Power Financial Corp	PWF.PR.E, F, G, H, I, K, L, O, P, R, S & T	Reset & Perp	DBRS	17-Dec-15	Pfd-2H	Pfd-1L	STABLE
Sun Life Financial Inc.	SLF.PR.A, B, C, D, E, G, H, I & J	Reset & Perp	DBRS	17-Dec-15	Pfd-2	Pfd-2H	STABLE
Power Corp. of Canada	POW.PR.A, B, C, D, F & G	Floating & Perp	DBRS	17-Dec-15	Pfd-2	Pfd-2H	STABLE
Co-operators	CCS.PR.C	Perpetual	DBRS	17-Dec-15	Pfd-2L	Pfd-3H	STABLE

Source: DBRS, Standard & Poors.

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 better after-tax yields 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 2016 Ontario tax rates, an investor in the +\$220,000 income tax bracket pays 53.53% tax on interest income and 39.34% on dividend income. Hence, the lower tax rate applied to dividends provides a significant advantage. After tax, an investor would retain \$60.66 from \$100.00 in dividends, but only \$46.47 from interest income. Therefore, an investor would need approximately \$1.305 ($\$60.66/\46.47) of interest income to equal \$1.00 of dividend income before taxes are paid. The 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 (1.305 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. The amount of the price change due to a change in interest rates is related to both the term to redemption, dividend rate and type of preferred share. Those preferred shares that have a fixed dividend rate maintain an inverse relationship between interest rates and price - i.e. as interest rates fall, prices rise. However, securities that have their dividend rate adjusted over their lifetime should have a direct relationship with interest rates with prices moving in the same direction as the level of underlying interest rates. 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.
- **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. The credit quality of preferred shares in Canada is primarily 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 that have no maturity date will be impacted to a greater extent by credit spreads than those securities that have a shorter term to redemption. Credit spreads have an inverse relationship with the price of preferred shares - i.e. widening credit spreads, increases yield, and depresses 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 for the investor as the redemption will only occur if it is advantageous for the issuer. Preferred share redemptions typically occur when it is cost effective for the issuer to redeem a preferred share that has a high dividend rate and refinance by issuing a preferred share with a lower 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 most preferred shares lack a maturity date, they have call dates at which 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 that 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 or the notion that the dividend rate may change. For those preferred shares that have a maturity date, it is also important to evaluate the internal rate of return because 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.

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 holdings 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 at the current rate 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 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 that 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 the investor's 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 weaker 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 could comprise approximately 20%, and no more than 50%, of the total fixed income portion of a portfolio.

Types of Preferred Shares

The various types of preferred shares have different relationships with underlying interest rates. With all the intricacies associated with each preferred share it is important to understand how the price of the security will be affected by moves in the underlying benchmark yield. The table below identifies the various types of preferred shares and their relationship with interest rates as well as specific comments that will also affect yields/prices.

Type	Relationship with Interest Rates	Underlying Benchmark Yield	Maturity Date	Comments
Retractable	Indirect	Based on maturity date	Yes	
Split Share	Indirect	Based on maturity date	Yes	
Floating Rate	Direct	90-Day T-Bills/ Bank Prime	No	
Bank Floating Rate	Direct	90-Day T-Bills	No	Will no longer qualify as Tier 1 Capital post 2022
Fixed Floating/ Rate Reset	Direct	5-year bond yield	No	
NVCC Rate Reset	Direct	5-year bond yield	No	Convertible into common shares at regulators option
Non-NVCC Bank Rate Reset	Direct	5-year bond yield	No	Will no longer qualify as Tier 1 Capital post 2022
Minimum Dividend Rate Reset	Direct	5-year bond yield	No	Dividend will never be lower than initial dividend rate
Fixed Perpetual	Indirect	30-year bond yield	No	
NVCC Perpetual	Indirect	30-year bond yield	No	Convertible into common shares at regulators option
Non-NVCC Bank Perpetual	Indirect	30-year bond yield	No	Will no longer qualify as Tier 1 Capital post 2022

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. Below is a table that 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

Type	Relationship with Interest Rates	Underlying Benchmark Yield	Maturity Date	Comments
Retractable	Indirect	Based on maturity date	Yes	

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 that 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, there is the risk that due to financial distress the company opts to pay the par value in common shares and dilutes its existing holders.

What's New: This sector of the preferred share market is shrinking as securities continue to be redeemed each year. During 2015, three retractable preferred shares were redeemed. Both Loblaw Ltd. and Manulife Financial Corp redeemed their retractable preferred shares at the first par (\$25) redemption date. Loblaw Ltd. was able to issue a fixed perpetual with a dividend rate of 5.30% which was cheaper financing than its 5.95% retractable. Nova Scotia Power also redeemed all of its outstanding shares of NSI.PR.D (5.4 million shares worth \$135 million). Overall, there was \$710 million worth of redemptions in the retractable sector with no new retractable preferred shares issued.

Dundee Corp Series 1 (DC.PR.C) which had an upcoming retraction privilege on June 30, 2016 amended the terms of its retractable preferred share and extended the retraction date to June 30, 2019 with a higher dividend rate. Holders of the preferred shares took part in a vote to determine if the amendments of the security would be granted.

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 2016.

Retractable Preferred Share Table											
Issuer	TSE Symbol	RATING		Price		RETRACTION			REDEMPTION		
		DBRS	S&P	Dec 31/15	Div	Date	Price	Pre-Tax YTR	Worst Case Call Date	Call Price	Yield to Worst
Investment Grade (P1-P2)											
CDN Genl. Invest. 3.9%	CGI.PR.C	Pfd-1L	N/A	\$24.99	\$0.975	15-Jun-16	25.00	4.55	30-Days	25.00	6.14
CDN Genl. Invest. 3.75% Ser 4	CGI.PR.D	Pfd-1L	N/A	\$24.86	\$0.938	15-Jun-22	25.00	3.89	15-Jun-20	25.50	4.36
Fortis Inc. 4.90% Series E	FTS.PR.E	Pfd-2L	P-2	\$25.35	\$1.225	1-Sep-16	25.00	3.47	1-Jun-16	25.00	2.60
Non-Investment Grade (P3 - P4)											
Birchcliff 7.00% Ser C	BIR.PR.C	N/A	N/A	\$20.24	\$1.750	30-Jun-20	25.00	12.67	30-Jun-20	25.00	12.67
Brookfield 5.00% Ser J	BPO.PR.J	Pfd-3	P-3	\$25.12	\$1.250	31-Mar-16	25.00	3.33	30-Days	25.00	-2.16
Brookfield 5.20% Ser K	BPO.PR.K	Pfd-3	P-3	\$25.11	\$1.300	31-Dec-16	25.00	4.83	30-Days	24.76	-1.45
Brookfield 5.25% U.S.\$ G	BPO.PR.U	Pfd-3	P-3	\$25.22	\$1.313	31-Mar-16	25.00	1.86	30-Days	25.00	-7.11
Brookfield 5.75% Ser H	BPO.PR.H	Pfd-3	P-3	\$25.08	\$1.438	31-Mar-16	25.00	4.84	30-Days	25.00	0.64
Brookfield Prop Split 5.0% Ser 3	BPS.PR.B	N/A	N/A	\$25.00	\$1.250	31-Mar-16	25.00	5.43	30-Days	25.00	4.33
Brookfield Prop Split 5.20% Ser 4	BPS.PR.C	N/A	N/A	\$24.70	\$1.300	31-Dec-16	25.00	6.56	30-Days	24.76	21.35
Brookfield Prop Split 5.75% Ser 2	BPS.PR.A	N/A	N/A	\$24.85	\$1.438	31-Mar-16	25.00	8.91	30-Days	25.00	13.31
Brookfield Prop Split U.S.\$ Ser 1	BPS.PR.U	N/A	N/A	\$24.96	\$1.313	31-Mar-16	25.00	6.41	30-Days	25.00	6.89
Dream Ltd 7.00% Ser 1 (\$7.16 par)	DRM.PR.A	N/A	N/A	\$7.14	\$0.501	31-Mar-16	7.16	8.85	30-Days	7.16	10.13
Dundee Corp Ser 4 5.00% (\$17.84 par)	DC.PR.C	N/A	N/A	\$14.25	\$0.892	30-Jun-16	17.84	55.95	30-Days	17.84	462.72

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, Portfolio Advisory Group

Fixed Perpetual Preferred Shares

Type	Relationship with Interest Rates	Underlying Benchmark Yield	Maturity Date	Comments
Fixed Perpetual	Indirect	30-year bond yield	No	
NVCC Perpetual	Indirect	30-year bond yield	No	Convertible into common shares at regulators option
Non-NVCC Bank Perpetual	Indirect	30-year bond yield	No	Will no longer qualify as Tier 1 Capital post 2022

Description: Fixed perpetual preferred shares have no maturity date. This structure pays 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.

Subsectors:

1. **NVCC Fixed Perpetuals:** These securities contain a feature which allows a regulator to force conversion of these shares into common shares in certain circumstances (trigger event) based on a pre-determined calculation.
2. **Non-NVCC Bank Perpetuals:** These securities are not convertible into common shares and will no longer qualify as Tier 1 Capital post 2022 as per Basel III regulations.

Redemption: Fixed 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 an attractive current yield and a fixed dividend that acts as a stable form of tax-efficient 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: This type of preferred share is most comparable to corporate long bonds (30-year) and due to the new Basel III regulations – non-NVCC bank perpetuals should now be compared to 6-year corporate bonds. This characteristic does not rule them out as a good choice in a diversified portfolio of preferred shares as they frequently 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. The main risk of investing in NVCC perpetuals versus other non-NVCC straight perpetuals is that if the bank undergoes a trigger event the preferred shares will be automatically converted into common shares.

What's New: In 2015, there were 7 fixed perpetual preferred shares issued, 5 of which contained the NVCC features. This was the first year in which the NVCC features were included in a fixed perpetual preferred share as Royal Bank of Canada tested the market in March. While there was limited demand for these products, Royal Bank issued 2 addition NVCC perpetuals and Bank of Montreal and TD Bank followed suit by issuing a NVCC perpetual of their own. The two non-bank companies who issued fixed pereptuals in 2015 included: Loblaw Ltd and Canadian Utilities Ltd.

On the redemption front, 70.1 million shares (worth \$1.778 billion) fixed perpetual preferred shares were redeemed over the year. Since the banks treatment of Tier 1 Capital is being reduced by 10% each year as per Basel III regulations it was not surprising that 94% of the perpetual redemptions were bank preferred shares. Following the redemptions, CIBC, National Bank & TD Bank no longer have any non-NVCC fixed perpetual preferred shares outstanding in the market.

Also, Industrial Alliance redeemed a perpetual with a 5.90% dividend rate (\$100MM of par value capital +\$4MM of redemption premium paid as a dividend). The company redeemed this security at a premium (\$26.00) and took advantage of the first date that the security was able to be called by the issuer.

Sector Themes: This type of security can be included in a diversified portfolio of preferred shares and is typically used as a source of fixed dividend income from a well-known issuer. During periods of rising 30-year bond yields or widening credit spreads the price of fixed perpetuals decline accordingly. 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 non-NVCC bank fixed 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. All of these securities have potential call dates in 2016 at various prices with some securities trading with a negative yield to next call as indicated in the following table. While it is unlikely that all of the bank perpetuals will be called in 2016 there is the expectation that some of the securities will be redeemed this year. The banks will likely continue to redeem securities each year in order to eliminate all non-NVCC bank products prior to 2022.

Non-NVCC Bank Perpetual Preferred Share Table													
Issuer Investment Grade (P1-P2)	TSE Symbol	RATING			Price Dec 31/15	Div	Current Yield	REDEMPTION			2022 REDEMPTION		
		DBRS	S&P					Worst Call Date	Call Price	Yield to Worst	Call Price	Potential Call Date	Yield to Call
BMO 5.25% Ser. 14	BMO.PR.K	Pfd-2H	P-2 (L)	\$25.84	\$1.313	5.08	30-Day	25.25	-13.54	25.00	31-Jan-22	4.59	
BMO 5.80% Ser. 15	BMO.PR.L	Pfd-2H	P-2 (L)	\$25.85	\$1.450	5.61	30-Day	25.50	-4.16	25.00	31-Jan-22	5.12	
BNS 4.50% Ser. 14	BNS.PR.L	Pfd-2H	P-2	\$24.70	\$1.125	4.55	26-Apr-16	25.00	7.79	25.00	31-Jan-22	4.68	
BNS 4.50% Ser. 15	BNS.PR.M	Pfd-2H	P-2	\$24.73	\$1.125	4.55	26-Jul-16	25.00	6.09	25.00	31-Jan-22	4.66	
BNS 5.25% Ser. 16	BNS.PR.N	Pfd-2H	P-2	\$25.50	\$1.313	5.15	30-Day	25.00	-12.35	25.00	31-Jan-22	4.81	
BNS 5.60% Ser. 17	BNS.PR.O	Pfd-2H	P-2	\$25.53	\$1.400	5.48	30-Day	25.50	-0.78	25.00	31-Jan-22	5.12	
HSBC 5.10% Ser. C	HSB.PR.C	Pfd-2	P-2	\$25.13	\$1.275	5.07	30-Day	25.00	-2.61	25.00	31-Jan-22	4.95	
HSBC 5.0% Ser. D	HSB.PR.D	Pfd-2	P-2	\$25.19	\$1.250	4.96	30-Day	25.00	-5.88	25.00	31-Jan-22	4.81	
Royal Bank 4.45% Ser. AA	RY.FR.A	Pfd-2H	P-2 (H)	\$24.81	\$1.113	4.48	30-Day	25.00	22.92	25.00	31-Jan-22	4.57	
Royal Bank 4.70% Ser. AB	RY.FR.B	Pfd-2H	P-2 (H)	\$25.07	\$1.175	4.69	30-Day	25.00	9.04	25.00	31-Jan-22	4.62	
Royal Bank 4.60% Ser. AC	RY.FR.C	Pfd-2H	P-2 (H)	\$25.13	\$1.150	4.58	30-Day	25.00	5.40	25.00	31-Jan-22	4.48	
Royal Bank 4.50% Ser. AD	RY.FR.D	Pfd-2H	P-2 (H)	\$25.01	\$1.125	4.50	30-Day	25.00	8.29	25.00	31-Jan-22	4.47	
Royal Bank 4.50% Ser. AE	RY.FR.E	Pfd-2H	P-2 (H)	\$24.95	\$1.125	4.51	30-Day	25.00	10.16	25.00	31-Jan-22	4.52	
Royal Bank 4.45% Ser. AF	RY.FR.F	Pfd-2H	P-2 (H)	\$24.88	\$1.113	4.47	24-May-16	25.00	7.06	25.00	31-Jan-22	4.52	
Royal Bank 4.50% Ser. AG	RY.FR.G	Pfd-2H	P-2 (H)	\$24.90	\$1.125	4.52	24-May-16	25.00	7.06	25.00	31-Jan-22	4.55	

Source: Bloomberg, Portfolio Advisory Group.

Guide to Preferred Shares

It is not advised to purchase any fixed perpetual preferred shares which have a negative yield as the decision to redeem is on the issuer. As seen in the perpetual share table on the following page many issuers have the option of redeeming their perpetual preferred share by giving the holder 30-days notice. Securities that have a longer potential call date offer an attractive yield but holders must be aware of the price volatility that can be experienced in a rising interest rate environment. The NVCC bank perpetuals as listed in the table below are trading with a higher yield compared to the non-NVCC bank perpetuals as there is no regulatory incentive for the company's to redeem these issues.

NVCC Bank Perpetual Preferred Share Table									
Issuer <i>Investment Grade (P1-P2)</i>	TSE Symbol	RATING		Price Dec 31/15	Div	Current Yield	REDEMPTION		Yield to Worst
		DBRS	S&P				Worst Call Date	Call Price	
Bank of Montreal 5.00% Ser. 35	BMO.PR.Z	Pfd-2	P-3 (H)	\$23.85	\$1.250	5.24	25-Nov-24	25.00	5.74
Royal Bank 4.90% Ser. W	RY.PR.W	N/A	P-2 (H)	\$22.89	\$1.225	5.35	30-Day	25.00	157.17
Royal Bank 4.90% Ser. BH	RY.PR.N	Pfd-2	P-2	\$23.03	\$1.225	5.32	24-Nov-24	25.00	6.14
Royal Bank 4.90% Ser. BI	RY.PR.O	Pfd-2	P-2	\$22.90	\$1.250	5.46	24-Nov-24	25.00	6.22
Royal Bank 5.25% Ser. BJ	RY.PR.P	Pfd-2	P-2	\$24.90	\$1.313	5.27	24-Feb-25	25.00	5.50
Toronto-Dominion 4.90% Ser. 11	TD.PF.F	Pfd-2	P-2	\$23.02	\$1.225	5.32	31-Oct-24	25.00	6.20

Source: Bloomberg, Portfolio Advisory Group.

Fixed Rate Perpetual Preferred Share Table

Issuer	TSE Symbol	RATING		Price		Current Yield	REDEMPTION		Yield to Worst
		DBRS	S&P	Dec 31/15	Div		Worst Call Date	Call Price	
Investment Grade (P1-P2)									
Brookfield Asset Mgmt 4.85% Ser. 36	BAM.PF.C	Pfd-2L	P-2	\$20.49	\$1.213	5.92	31-Mar-22	25.00	8.64
Brookfield Asset Mgmt 4.90% Ser. 37	BAM.PF.D	Pfd-2L	P-2	\$20.60	\$1.225	5.95	30-Sep-22	25.00	8.36
Brookfield Asset Mgmt 4.75% Ser. 17	BAM.PR.M	Pfd-2L	P-2	\$19.93	\$1.188	5.96	30-Day	25.00	469.31
Brookfield Asset Mgmt 4.75% Ser. 18	BAM.PR.N	Pfd-2L	P-2	\$20.19	\$1.188	5.88	30-Jun-16	25.00	53.02
CDN Util. 4.50% Ser. CC	CJ.PR.F	Pfd-2H	P-2 (H)	\$20.74	\$1.125	5.42	1-Jun-22	25.00	8.02
CDN Util. 4.50% Ser. DD	CJ.PR.G	Pfd-2H	P-2 (H)	\$20.72	\$1.125	5.43	1-Jun-22	25.00	8.03
CDN Util. 4.90% Ser. AA	CJ.PR.D	Pfd-2H	P-2 (H)	\$22.25	\$1.225	5.51	1-Sep-21	25.00	7.40
CDN Util. 4.90% Ser. BB	CJ.PR.E	Pfd-2H	P-2 (H)	\$22.26	\$1.225	5.50	1-Sep-21	25.00	7.40
CDN Util. 5.25% Ser. EE	CJ.PR.H	Pfd-2H	P-2 (H)	\$23.70	\$1.313	5.54	1-Sep-24	25.00	6.10
Co-operators Ser. C 5.00%	CCS.PR.C	Pfd-2L	P-2	\$22.65	\$1.250	5.52	30-Jun-16	25.00	26.77
CU Inc. 4.60% Ser. 1	CJ.PR.A	Pfd-2H	P-2 (L)	\$20.25	\$1.150	5.68	1-Jun-16	25.00	63.36
E-L Financial 4.75% Ser. 2	ELF.PR.G	N/A	P-2 (H)	\$20.82	\$1.188	5.70	30-Day	25.00	343.67
E-L Financial 5.50% Ser. 3	ELF.PR.H	N/A	P-2 (H)	\$23.60	\$1.375	5.83	17-Apr-21	25.00	6.73
E-L Financial Corp. 5.30%	ELF.PR.F	N/A	P-2 (H)	\$22.96	\$1.325	5.77	30-Day	25.00	134.40
Emera Inc. 4.50% Ser. E	EMA.PR.E	Pfd-3H /*	P-2 (L)	\$20.30	\$1.125	5.54	15-Aug-22	25.00	8.36
Fortis Inc. 4.75% Ser. J	FTS.PR.J	Pfd-2L	P-2	\$22.77	\$1.188	5.22	1-Dec-21	25.00	6.69
Fortis Inc. 4.90% Ser. F	FTS.PR.F	Pfd-2L	P-2	\$23.34	\$1.225	5.25	30-Day	25.00	116.72
Great West 4.5% Ser. I	GWO.PR.I	Pfd-2H	P-1 (L)	\$21.20	\$1.125	5.31	30-Day	25.00	308.10
Great West 4.80% Ser. R	GWO.PR.R	Pfd-2H	P-1 (L)	\$22.00	\$1.200	5.45	31-Dec-21	25.00	7.31
Great West 4.85% Ser. H	GWO.PR.H	Pfd-2H	P-1 (L)	\$22.20	\$1.213	5.46	30-Day	25.00	206.77
Great West 5.15% Ser. Q	GWO.PR.Q	Pfd-2H	P-1 (L)	\$23.32	\$1.288	5.52	30-Sep-21	25.00	6.58
Great West 5.20% Ser. G	GWO.PR.G	Pfd-2H	P-1 (L)	\$23.45	\$1.300	5.54	30-Day	25.00	104.77
Great West 5.25% Ser. S	GWO.PR.S	Pfd-2H	P-1 (L)	\$24.94	\$1.313	5.26	30-Jun-23	25.00	5.30
Great West 5.40% Ser. P	GWO.PR.P	Pfd-2H	P-1 (L)	\$24.68	\$1.350	5.47	31-Mar-21	25.00	5.71
Great West 5.65% Ser. L	GWO.PR.L	Pfd-2H	P-1 (L)	\$25.25	\$1.413	5.59	30-Dec-18	25.00	5.32
Great West 5.80% Ser. M	GWO.PR.M	Pfd-2H	P-1 (L)	\$25.65	\$1.450	5.65	31-Mar-19	25.00	4.96
Great West 5.90% Ser. F	GWO.PR.F	Pfd-2H	P-1 (L)	\$25.48	\$1.475	5.79	3-Feb-16	25.00	-17.89
IGM Financial Inc. 5.90% Ser. B	IGM.PR.B	Pfd-2H	P-2 (H)	\$25.30	\$1.475	5.83	30-Dec-18	25.00	5.02
Industrial Alliance 4.60%	IAG.PR.A	Pfd-2H	P-1 (L)	\$21.45	\$1.150	5.36	30-Day	25.00	282.27
Manulife Financial 4.50% S. 3	MFC.PR.C	Pfd-2	P-2 (H)	\$21.20	\$1.125	5.31	30-Day	25.00	311.95
Manulife Financial 4.65% S. 2	MFC.PR.B	Pfd-2	P-2 (H)	\$21.62	\$1.163	5.38	30-Day	25.00	266.16
Power Corp. 5.00% Ser.D	POW.PR.D	Pfd-2	P-2 (H)	\$22.69	\$1.250	5.51	30-Day	25.00	158.22
Power Corp. 5.35% Ser.B	POW.PR.B	Pfd-2	P-2 (H)	\$23.50	\$1.338	5.69	30-Day	25.00	96.01
Power Corp. 5.60% Ser.A	POW.PR.A	Pfd-2	P-2 (H)	\$24.63	\$1.400	5.68	30-Day	25.00	23.52
Power Corp. 5.60% Ser.G	POW.PR.G	Pfd-2	P-2 (H)	\$24.72	\$1.400	5.66	15-Apr-21	25.00	5.82
Power Corp. 5.80% Ser.C	POW.PR.C	Pfd-2	P-2 (H)	\$25.20	\$1.450	5.75	30-Day	25.00	-8.08
Power Finl. 4.80% Ser. S	PWF.PR.S	Pfd-2H	P-1 (L)	\$21.71	\$1.200	5.53	30-Apr-22	25.00	7.62
Power Finl. 4.95% Ser. K	PWF.PR.K	Pfd-2H	P-1 (L)	\$22.30	\$1.238	5.55	30-Day	25.00	213.00
Power Finl. 5.10% Ser. L	PWF.PR.L	Pfd-2H	P-1 (L)	\$22.67	\$1.275	5.62	30-Day	25.00	180.55
Power Finl. 5.25% Ser. E	PWF.PR.F	Pfd-2H	P-1 (L)	\$23.20	\$1.313	5.66	30-Day	25.00	137.59
Power Finl. 5.50% Ser. D	PWF.PR.E	Pfd-2H	P-1 (L)	\$24.27	\$1.375	5.67	30-Day	25.00	62.27
Power Finl. 5.50% Ser. R	PWF.PR.R	Pfd-2H	P-1 (L)	\$24.54	\$1.375	5.60	30-Apr-21	25.00	6.13
Power Finl. 5.75% Ser. H	PWF.PR.H	Pfd-2H	P-1 (L)	\$25.37	\$1.438	5.67	30-Day	25.00	-0.99
Power Finl. 5.80% Ser. O	PWF.PR.O	Pfd-2H	P-1 (L)	\$25.53	\$1.450	5.68	31-Oct-18	25.00	5.39
Power Finl. 5.90% Ser. F	PWF.PR.G	Pfd-2H	P-1 (L)	\$25.60	\$1.475	5.76	30-Day	25.00	-12.50
Power Finl. 6.00% Ser. I	PWF.PR.I	Pfd-2H	P-1 (L)	\$25.73	\$1.500	5.83	30-Day	25.00	-18.61
Sun Life Fin. 4.45% Ser. 3	SLF.PR.C	Pfd-2	P-2 (H)	\$20.93	\$1.113	5.32	30-Day	25.00	341.80
Sun Life Fin. 4.45% Ser. 4	SLF.PR.D	Pfd-2	P-2 (H)	\$20.77	\$1.113	5.36	30-Day	25.00	376.91
Sun Life Fin. 4.50% Ser. 5	SLF.PR.E	Pfd-2	P-2 (H)	\$21.00	\$1.125	5.36	30-Mar-16	25.00	90.51
Sun Life Fin. 4.75% Ser. 1	SLF.PR.A	Pfd-2	P-2 (H)	\$21.96	\$1.188	5.41	30-Day	25.00	231.36
Sun Life Fin. 4.80% Ser. 2	SLF.PR.B	Pfd-2	P-2 (H)	\$21.98	\$1.200	5.46	30-Day	25.00	229.54
Westcoast 5.50% Ser. 7	W.PR.H	Pfd-2L	P-3 (H)	\$23.64	\$1.375	5.82	30-Day	25.00	84.49
Westcoast 5.60% Ser. 8	W.PR.J	Pfd-2L	P-3 (H)	\$23.90	\$1.400	5.86	30-Day	25.00	66.92
Non-Investment Grade (P3-P4)									
Atlantic Power 4.85% Ser 1	AZP.PR.A	N/A	P-5	\$10.49	\$1.213	11.56	28-Jun-16	25.00	242.90
Bombardier 6.25% Ser. 4	BBD.PR.C	N/A	P-5	\$12.66	\$1.563	12.34	30-Day	25.00	3780.79
Brookfield Renew Energy 5.00% Ser 5	BRF.PR.E	Pfd-3H	P-3 (H)	\$19.81	\$1.250	6.31	30-Apr-22	25.00	9.62
Brookfield Renew Energy 5.00% Ser 6	BRF.PR.F	Pfd-3H	P-3 (H)	\$19.67	\$1.250	6.35	31-Jul-22	25.00	9.60
Enbridge 5.50% Ser. A	ENB.PR.A	Pfd-3H	P-2 (L)	\$23.63	\$1.375	5.82	30-Day	25.00	97.30
G. Weston Ltd. 4.75% Ser.V	WN.PR.E	Pfd-3	P-3 (H)	\$21.69	\$1.188	5.47	30-Day	25.00	253.29
G. Weston Ltd. 5.2% Ser.III	WN.PR.C	Pfd-3	P-3 (H)	\$23.59	\$1.300	5.51	30-Day	25.00	92.19
G. Weston Ltd. 5.2% Ser.IV	WN.PR.D	Pfd-3	P-3 (H)	\$23.53	\$1.300	5.52	30-Day	25.00	96.45
G. Weston Ltd. 5.8% Ser.I	WN.PR.A	Pfd-3	P-3 (H)	\$25.14	\$1.450	5.77	30-Day	25.00	0.70
Innogy Renewable Energy Inc 5.75%	INE.PR.C	N/A	P-3	\$18.68	\$1.438	7.70	15-Jan-22	25.00	11.72
Loblaw Companies Ltd 5.3% Ser. B	L.PR.B	Pfd-3	P-3 (H)	\$23.44	\$1.325	5.65	30-Jun-24	25.00	6.27

Source: Bloomberg, ScotiaMcLeod.

Rate Reset Perpetual Preferred Shares

Type	Relationship with Interest Rates	Underlying Benchmark Yield	Maturity Date	Comments
Rate Reset	Direct	5-year bond yield	No	
NVCC Rate Reset	Direct	5-year bond yield	No	Convertible into common shares at regulators option
Non-NVCC Bank Rate Reset	Direct	5-year bond yield	No	Will no longer qualify as Tier 1 Capital post 2022
Minimum Dividend Rate Reset	Direct	5-year bond yield	No	Dividend will never be lower than initial dividend rate

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 the 5-year Government of Canada bond.
2. Exchanging into a floating rate preferred share whose dividend will be reset on a quarterly basis at 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.

Subsectors:

1. **NVCC Rate Reset:** These securities contain a feature which allows a regulator to force conversion of these shares into common shares in certain circumstances (trigger event) based on a pre-determined calculation.
2. **Non-NVCC Bank Rate Reset:** These securities are not convertible into common shares and will no longer qualify as Tier 1 Capital post 2022 as per Basel III regulations.
3. **Minimum Dividend Rate Reset:** Caveat in which the fixed dividend when reset will not be lower than the initial dividend rate.

Redemption: These preferred shares are redeemable at the option of the issuer on every reset date at par value (\$25.00). 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 a dividend rate which is reset in-line with yields prevailing in the market on a periodic basis. Holders also get the choice of what type of dividend to receive (fixed vs. floating) every 5-years. This type of security should perform well in a rising interest rate environment.

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. The NVCC rate resets have the risk that if the company undergoes a trigger event the preferred shares will be automatically converted into common shares.

What's New: Rate reset preferred shares continue to be the most popular type of structure; accounting for more than half (60%) of the Canadian preferred share market and the negative performance experienced during 2015 helped drag the Index lower. However, during the year, there were 23 new rate resets issued across 17 different issuers. Over the course of the year there were 14 rate resets that were extended and only 2 rate resets which were redeemed. The redeemed securities included; a non-NVCC bank rate reset, and an early redemption due to an acquisition. A list of all rate reset preferred shares currently outstanding in the market can be found in the following tables.

One of the main drivers affecting the performance of the rate reset shares has been the low interest rate environment as the 5-year Government of Canada bond yield acts as a base rate when the rate reset securities adjust their dividend rate. As a reference, year-over-year the 5-year Government of Canada bond yield moved lower by -0.60% and finished the year at 0.73%.

As rate resets extended throughout the year the new fixed dividend rate was calculated based on the current 5-year yield plus the reset spread associated with each security. As the base rate (5-year Government bond yield) was much lower than when these securities were issued (~2010), the new fixed dividend rates announced were much lower than the initial dividend rate as seen in the table below. On average the new fixed dividend rates were -38% lower than the initial rates. Prices moved lower accordingly to reflect the new lower future cash flows.

Rate Resets Converted to Floating Rate Securities							
Date	Ticker	Reset Spread	Initial Dividend	New Dividend	Div % Change	Percentage Fixed	Percentage Floating
31-Mar-15	FFH.PR.E	+2.16%	4.75%	2.91%	-38.74%	55.35%	44.65%
31-Mar-15	AIM.PR.A	+3.75%	6.50%	4.50%	-30.77%	57.30%	42.70%
26-Apr-15	BNS.PR.Y	+1.00%	3.85%	1.82%	-52.73%	57.95%	42.05%
30-Apr-15	BRF.PR.A	+2.62%	5.25%	3.36%	-36.10%	54.82%	45.18%
1-Jun-15	FTS.PR.H	+1.45%	4.25%	2.50%	-41.18%	70.25%	29.75%
30-Jun-15	SLF.PR.G	+1.41%	4.35%	2.275%	-47.70%	45.74%	54.26%
30-Jun-15	TRP.PR.B	+1.28%	4.00%	2.152%	-46.20%	60.95%	39.05%
15-Aug-15	EMA.PR.A	+1.84%	4.40%	2.56%	-41.93%	64.41%	35.59%
30-Sep-15	FFH.PR.G	+2.56%	5.00%	3.32%	-33.64%	74.33%	25.67%
30-Sep-15	NPI.PR.A	+2.80%	5.25%	3.51%	-33.14%	75.03%	24.97%
30-Sep-15	ALA.PR.A	+2.66%	5.00%	3.38%	-32.40%	68.89%	31.11%
31-Dec-15	FFH.PR.I	+2.85%	5.00%	3.71%	-25.84%	87.21%	12.79%
31-Dec-15	CPX.PR.A	+2.17%	4.60%	3.06%	-33.48%	100.00%	0.00%
31-Dec-15	GWO.PR.N	+1.30%	3.65%	2.18%	-40.38%	85.24%	14.76%

Source: Bloomberg, Portfolio Advisory Group. (12/31/15)

A new 'minimum dividend' feature was included in various non-financial rate resets that were issued after September 2015 to try and renew sentiment about the rate reset product following the complaints about the dramatic dividend adjustment that was occurring as resets extended. This minimum dividend feature only applies to the fixed rate portion following the initial reset date and not the floating rate dividend. With investors having the comfort of knowing the dividend rate would never adjust lower than the initial rate, even as 5-year yields moved lower, the price of the minimum dividend products held in better than existing rate resets.

Sector Trends: Extensions of rate resets with new lower dividends was the theme of 2015, a theme that is projected to continue in 2016 as the low interest rate environment has persisted as many upcoming rate resets have low reset spreads compared to current market conditions therefore it is beneficial from a company standpoint to extend their rate reset rather than redeem these issues. The pricing of upcoming rate resets is mostly already reflecting the lower 5-year Canada bond yield yet prices will continue to fluctuate based on moves in the bond market and any new issuance with better terms.

The appeal of converting into a floating rate security following the extension of the 2015 rate resets diminished as the year progressed as concerns surmounted that the Bank of Canada would continue to cut the overnight rate as the price of oil declined to recent lows. As there is a minimum amount of shares that must opt for conversion for a floating rate security to be created, sometimes the floating rate option is not created, as in the case with CPX.PR.A.

The non-NVCC bank rate resets which will no longer qualify as Tier 1 Capital post 2022 performed better than other rate resets, albeit still delivering negative performance. These securities are expected to be redeemed prior to the 2022 deadline and therefore have minimal extension risk compared to non-bank rate resets.

In the rate reset market, the characteristics (reset date, reset spread, credit rating) impact the pricing and hence yield offered to investors. There are many rate resets trading at a deep discount that have the potential to be reset with a new dividend rate every five years without any incentive for the company to redeem them at par.

Rate Reset Perpetual Preferred Share Table

Issuer Investment Grade (P1-P2)	TSE Symbol	RATING		Price		Current Yield	REDEMPTION		
		DBRS	S&P	Dec 31/15	Div		Reset/Call Date	Yield to Reset	Reset Rate (5 - YR CAN)
BCE Inc 4.25% Ser AQ	BCE.PR.Q	Pfd-3H	P-2 (L)	\$21.44	\$1.063	4.96	30-Sep-18	10.33	+264 bp
BCE Inc 4.55% Ser AO	BCE.PR.O	Pfd-3H	P-2 (L)	\$22.40	\$1.138	5.08	31-Mar-17	13.98	+309 bp
BCE Inc 4.85% Ser AM	BCE.PR.M	Pfd-3H	P-2 (L)	\$15.69	\$1.213	7.73	31-Mar-16	272.24	+209 bp
BCE Inc. 4.15% Ser AK	BCE.PR.K	Pfd-3H	P-2 (L)	\$15.03	\$1.038	6.90	31-Dec-16	61.14	+188 bp
Brookfield Asset 4.20% S 34	BAM.PF.B	Pfd-2L	P-2	\$20.59	\$1.050	5.10	31-Mar-19	10.77	+263 bp
Brookfield Asset 4.40% S 38	BAM.PF.E	Pfd-2L	P-2	\$20.66	\$1.100	5.32	31-Mar-20	9.45	+255 bp
Brookfield Asset 4.50% S 26	BAM.PR.T	Pfd-2L	P-2	\$18.19	\$1.125	6.18	31-Mar-17	32.29	+231 bp
Brookfield Asset 4.50% S 32	BAM.PF.A	Pfd-2L	P-2	\$22.00	\$1.125	5.11	30-Sep-18	9.58	+290 bp
Brookfield Asset 4.50% S 40	BAM.PF.F	Pfd-2L	P-2	\$22.16	\$1.125	5.08	31-Dec-19	7.87	+286 bp
Brookfield Asset 4.50% S42	BAM.PF.G	Pfd-2L	P-2	\$22.20	\$1.125	5.07	30-Jun-20	7.49	+284 bp
Brookfield Asset 4.60% S 28	BAM.PR.X	Pfd-2L	P-2	\$16.00	\$1.150	7.19	30-Jun-17	37.48	+180 bp
Brookfield Asset 4.80% S 30	BAM.PR.Z	Pfd-2L	P-2	\$21.87	\$1.200	5.49	31-Dec-17	12.04	+296 bp
Brookfield Asset 5.40% S 24	BAM.PR.R	Pfd-2L	P-2	\$16.75	\$1.350	8.06	30-Jun-16	100.64	+230 bp
Brookfield Infra Partners 4.50% Ser 1 (ROC)	BIP.PR.A	N/A	P-2 (L)	\$20.52	\$1.125	5.48	30-Jun-20	9.48	+356 bp
Canadian Utilities 4.00% Series Y	CU.PR.C	Pfd-2H	P-2 (H)	\$20.39	\$1.000	4.90	1-Jun-17	19.72	+240 bp
CU Inc. 3.8% Ser. 4	CU.PR.C	Pfd-2H	P-2 (L)	\$12.35	\$0.950	7.69	1-Jun-16	231.05	+136 bp
Emera Inc. 2.555% Ser A	EMA.PR.A	Pfd-3H/*	P-2 (L)	\$14.20	\$0.639	4.50	15-Aug-20	16.13	+184 bp
Emera Inc. 4.10% Ser C	EMA.PR.C	Pfd-3H/*	P-2 (L)	\$19.73	\$1.025	5.20	15-Aug-18	14.19	+265 bp
Emera Inc. 4.25% Ser F	EMA.PR.F	Pfd-3H/*	P-2 (L)	\$20.65	\$1.063	5.15	15-Feb-20	9.60	+263 bp
Enbridge Inc. 4.00% Ser 3	ENB.PR.Y	Pfd-3H	P-2 (L)	\$17.04	\$1.000	5.87	1-Sep-19	15.78	+238 bp
Enbridge Inc. 4.00% Ser B	ENB.PR.B	Pfd-3H	P-2 (L)	\$15.83	\$1.000	6.32	1-Jun-17	39.80	+240 bp
Enbridge Inc. 4.00% Ser D	ENB.PR.D	Pfd-3H	P-2 (L)	\$16.16	\$1.000	6.19	1-Mar-18	26.32	+237 bp
Enbridge Inc. 4.00% Ser F	ENB.PR.F	Pfd-3H	P-2 (L)	\$17.03	\$1.000	5.87	1-Jun-18	21.58	+251 bp
Enbridge Inc. 4.00% Ser H	ENB.PR.H	Pfd-3H	P-2 (L)	\$15.50	\$1.000	6.45	1-Sep-18	23.98	+212 bp
Enbridge Inc. 4.00% Ser N	ENB.PR.N	Pfd-3H	P-2 (L)	\$17.41	\$1.000	5.74	1-Dec-18	17.80	+265 bp
Enbridge Inc. 4.00% Ser P	ENB.PR.P	Pfd-3H	P-2 (L)	\$16.85	\$1.000	5.93	1-Mar-19	17.95	+250 bp
Enbridge Inc. 4.40% Ser R	ENB.PR.T	Pfd-3H	P-2 (L)	\$17.14	\$1.000	5.83	1-Jun-19	16.40	+250 bp
Enbridge Inc. 4.40% Ser 11	ENB.PF.C	Pfd-3H	P-2 (L)	\$18.71	\$1.100	5.88	1-Mar-20	12.38	+264 bp
Enbridge Inc. 4.40% Ser 13	ENB.PF.E	Pfd-3H	P-2 (L)	\$18.84	\$1.100	5.84	1-Jun-20	11.78	+266 bp
Enbridge Inc. 4.40% Ser 15	ENB.PF.G	Pfd-3H	P-2 (L)	\$19.21	\$1.100	5.73	1-Jun-20	11.27	+268 bp
Enbridge Inc. 4.40% Ser 7	ENB.PR.J	Pfd-3H	P-2 (L)	\$18.13	\$1.100	6.07	1-Mar-19	15.83	+257 bp
Enbridge Inc. 4.40% Ser 9	ENB.PF.A	Pfd-3H	P-2 (L)	\$18.67	\$1.100	5.89	1-Dec-19	12.90	+266 bp
Enbridge Inc. US 4.00% Ser 1	ENB.PR.V	Pfd-3H	P-2 (L)	\$18.17	\$1.000	5.50	1-Jun-18	18.57	+314 bp
Enbridge Inc. US 4.00% Ser J	ENB.PR.U	Pfd-3H	P-2 (L)	\$18.10	\$1.000	5.52	1-Jun-17	29.04	+305 bp
Enbridge Inc. US 4.00% Ser L	ENB.PF.U	Pfd-3H	P-2 (L)	\$18.00	\$1.000	5.56	1-Sep-17	25.61	+315 bp
Enbridge Inc. US 4.40% Ser 5	ENB.PF.V	Pfd-3H	P-2 (L)	\$17.88	\$1.100	6.15	1-Mar-19	16.33	+282 bp
Fortis Inc 2.50% Ser. H	FTS.PR.H	Pfd-2L	P-2	\$14.65	\$0.625	4.27	1-Jun-20	15.81	+145 bp
Fortis Inc 3.883% Ser G*	FTS.PR.G	Pfd-2L	P-2	\$18.47	\$0.971	5.26	1-Sep-18	16.41	+213 bp
Fortis Inc 4.00% Ser. K	FTS.PR.K	Pfd-2L	P-2	\$19.29	\$1.000	5.18	1-Mar-19	13.13	+205 bp
Fortis Inc 4.10% Ser. M	FTS.PR.M	Pfd-2L	P-2	\$20.90	\$1.025	4.90	1-Dec-19	9.28	+248 bp
Great-West Lifeco Inc. 2.176% Ser N	GWO.PR.N	Pfd-2H	P-1 (L)	\$14.00	\$0.544	3.89	31-Dec-20	14.83	+130 bp
Husky Energy Inc. 4.45% Ser 1	HSE.PR.A	Pfd-2L	P-2(L)	\$13.13	\$1.113	8.47	31-Mar-16	414.88	+173 bp
Husky Energy Inc. 4.50% Ser 3	HSE.PR.C	Pfd-2L	P-2(L)	\$18.78	\$1.125	5.99	31-Dec-19	12.56	+313 bp
Husky Energy Inc. 4.50% Ser 5	HSE.PR.E	Pfd-2L	P-2(L)	\$19.57	\$1.125	5.75	31-Mar-20	11.01	+357 bp
Husky Energy Inc. 4.60% Ser 7	HSE.PR.G	Pfd-2L	P-2(L)	\$20.07	\$1.150	5.73	30-Jun-20	10.15	+352 bp
Industrial Alliance 4.30% Ser G	IAG.PR.G	Pfd-2H	P-1 (L)/*	\$22.31	\$1.075	4.82	30-Jun-17	12.44	+285 bp
Intact Financial Corp 4.20% Ser 1	IFC.PR.A	Pfd-2	N/A	\$16.93	\$1.050	6.20	30-Dec-17	25.52	+172 bp
Intact Financial Corp 4.20% Ser 3	IFC.PR.C	Pfd-2	N/A	\$20.90	\$1.050	5.02	30-Sep-16	30.13	+266 bp
Manulife Corp 3.80% Ser 13	MFC.PR.K	Pfd-2	P-2 (H)	\$20.66	\$0.950	4.60	19-Sep-18	11.44	+222 bp
Manulife Corp 3.80% Ser 19	MFC.PR.N	Pfd-2	P-2 (H)	\$20.96	\$0.950	4.53	19-Mar-20	8.47	+230 bp
Manulife Corp 3.90% Ser 15	MFC.PR.L	Pfd-2	P-2 (H)	\$20.42	\$0.975	4.77	19-Jun-19	10.35	+216 bp
Manulife Corp 3.90% Ser 17	MFC.PR.M	Pfd-2	P-2 (H)	\$21.34	\$0.975	4.57	19-Dec-19	8.35	+236 bp
Manulife Corp 4.00% Ser 11	MFC.PR.J	Pfd-2	P-2 (H)	\$22.08	\$1.000	4.53	19-Mar-18	10.10	+261 bp
Manulife Corp 4.20% Ser 3	MFC.PR.F	Pfd-2	P-2 (H)	\$15.00	\$1.050	7.00	19-Jun-16	138.75	+141 bp
Manulife Corp 4.40% Ser 5	MFC.PR.G	Pfd-2	P-2 (H)	\$22.69	\$1.100	4.85	19-Dec-16	15.27	+290 bp
Manulife Corp 4.40% Ser 9	MFC.PR.I	Pfd-2	P-2 (H)	\$23.40	\$1.100	4.70	19-Sep-17	8.62	+286 bp
Manulife Corp 4.60% Ser 7	MFC.PR.H	Pfd-2	P-2 (H)	\$24.08	\$1.150	4.78	19-Mar-17	8.07	+313 bp
Power Financial Corp 4.20% Ser T	PWF.PR.T	Pfd-2H	P-1 (L)	\$23.95	\$1.050	4.38	31-Jan-19	5.98	+237 bp
Power Financial Corp 2.306% Ser P	PWF.PR.P	Pfd-2H	P-1 (L)	\$14.78	\$0.577	3.90	30-Jan-21	13.95	+160 bp
Sun Life Financial Inc. 2.275% Ser. 8R	SLF.PR.G	Pfd-2H	P-2 (H)	\$15.30	\$0.569	3.72	30-Jun-20	14.12	+141 bp
Sun Life Financial Inc. 3.90% Ser. 10R	SLF.PR.H	Pfd-2	P-2 (H)	\$18.99	\$0.975	5.13	30-Sep-16	44.26	+217 bp
Sun Life Financial Inc. 4.25% Ser. 12R	SLF.PR.I	Pfd-2	P-2 (H)	\$21.54	\$1.063	4.93	31-Dec-16	20.20	+273 bp

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

Source: Bloomberg, Portfolio Advisory Group.

Rate Reset Perpetual Preferred Share Table

Issuer Investment Grade (P1-P2)	TSE Symbol	RATING		Price		Current Yield	Reset/Call Date	REDEMPTION	
		DBRS	S&P	Dec 31/15	Div			Yield to Reset	Reset Rate (5 - YR CAN)
TransCanada Corp 2.152% Ser 3	TRP.PR.B	Pfd-2L	P-2	\$12.49	\$0.538	4.31	30-Jun-20	19.00	+128 bp
TransCanada Corp 2.263% Ser 5	TRP.PR.C	Pfd-2L	P-2	\$12.75	\$0.566	4.44	30-Jan-21	16.76	+154 bp
TransCanada Corp 3.266% Ser 1	TRP.PR.A	Pfd-2L	P-2	\$16.64	\$0.817	4.91	31-Dec-19	14.48	+192 bp
TransCanada Corp 3.80% Ser 11	TRP.PR.G	Pfd-2L	P-2	\$20.91	\$0.950	4.54	30-Nov-20	7.96	+296 bp
TransCanada Corp 4.00% Ser 7	TRP.PR.D	Pfd-2L	P-2	\$19.17	\$1.000	5.22	30-Apr-19	12.63	+238 bp
TransCanada Corp 4.25% Ser 9	TRP.PR.E	Pfd-2L	P-2	\$19.76	\$1.063	5.38	30-Oct-19	10.96	+235 bp
Valener Inc. 4.35% Ser A	VNR.PR.A	Pfd-2L	P-2 (L)	\$20.00	\$1.088	5.44	15-Oct-17	18.51	+281 bp
Non-Investment Grade (P3-P4)									
Aimia (Group Aeroplan) 4.50% Ser 1	AIM.PR.A	Pfd-3L	P-3	\$12.81	\$1.125	8.78	31-Mar-20	22.79	+375 bp
Aimia (Group Aeroplan) 6.25% Ser 3	AIM.PR.C	Pfd-3L	P-3	\$16.40	\$1.563	9.53	31-Mar-19	21.30	+420 bp
Algonquin Power 4.50% Ser A	AQN.PR.A	Pfd-3L	P-3H	\$17.88	\$1.125	6.29	31-Dec-18	16.88	+294 bp
Algonquin Power 5.00% Ser D	AQN.PR.D	Pfd-3L	P-3 (H)	\$21.49	\$1.250	5.82	31-Mar-19	10.19	+328 bp
AltaGas Ltd 3.38% Ser A	ALA.PR.A	Pfd-3	P-3 (H)	\$16.16	\$0.845	5.23	30-Sep-20	13.66	+266 bp
AltaGas Ltd 4.75% Ser G	ALA.PR.G	Pfd-3	P-3 (H)	\$21.38	\$1.188	5.55	30-Sep-19	9.43	+306 bp
AltaGas Ltd 5.00% Ser E	ALA.PR.E	Pfd-3	P-3 (H)	\$21.78	\$1.250	5.74	31-Dec-18	10.09	+317 bp
AltaGas Ltd US 4.40% Ser C	ALA.PR.U	Pfd-3	P-3 (H)	\$20.27	\$1.100	5.43	30-Sep-17	17.34	+358 bp
Artis RBT 4.75% Series E (ROC)	AX.PR.E	Pfd-3L	NA	\$15.32	\$1.188	7.75	30-Sep-18	24.70	+330 bp
Artis RET 5.00% Series G (ROC)	AX.PR.G	Pfd-3L	NA	\$15.78	\$1.250	7.92	31-Jul-19	20.11	+313 bp
Artis RBT 5.25% Series A (ROC)	AX.PR.A	Pfd-3L	NA	\$16.96	\$1.313	7.74	30-Sep-17	29.76	+406 bp
Artis RET 5.25% US Series C (ROC)	AX.PR.U	Pfd-3L	NA	\$18.50	\$1.313	7.09	31-Mar-18	20.05	+446 bp
Atlantic Power 5.57% Ser 2	AZP.PR.B	NA	P-5	\$11.10	\$1.393	12.55	31-Dec-19	29.99	+418 bp
Birchcliff Energy Ltd 8.00% Ser A	BIR.PR.A	NA	NA	\$18.04	\$2.000	11.09	30-Sep-17	29.15	+683 bp
Brookfield Prop 4.60% Ser. T	BPO.PR.T	Pfd-3	P-3	\$19.31	\$1.150	5.96	31-Dec-18	14.11	+316 bp
Brookfield Prop 4.75% Ser. AA	BPO.PR.A	Pfd-3	P-3	\$19.50	\$1.188	6.09	31-Dec-19	11.77	+315 bp
Brookfield Prop 5.10% Ser. R	BPO.PR.R	Pfd-3	P-3	\$18.90	\$1.275	6.75	30-Sep-16	46.49	+348 bp
Brookfield Prop 5.15% Ser. P	BPO.PR.P	Pfd-3	P-3	\$18.10	\$1.288	7.11	31-Mar-17	33.55	+300 bp
Brookfield Prop 6.15% Ser. N	BPO.PR.N	Pfd-3	P-3	\$16.55	\$1.537	9.29	30-Jun-16	104.91	+307 bp
Brookfield Renew Energy 3.355% Ser 1	BRF.PR.A	Pfd-3H	P-3 (H)	\$16.98	\$0.839	4.94	30-Apr-20	13.47	+262 bp
Brookfield Renew Energy 4.40% Ser 3	BRF.PR.C	Pfd-3H	P-3 (H)	\$19.45	\$1.100	5.66	31-Jul-19	12.50	+294 bp
Canaccord Financial Inc. 5.50% Ser A	CF.PR.A	Pfd-3L	NA	\$11.00	\$1.375	12.50	30-Sep-16	139.76	+321 bp
Canaccord Financial Inc. 5.75% Ser C	CF.PR.C	Pfd-3L	NA	\$13.40	\$1.438	10.73	30-Jun-17	53.07	+403 bp
Capital Power Corp 3.06% Ser 1	CPX.PR.A	Pfd-3L	P-3	\$10.51	\$0.765	7.28	31-Dec-20	22.85	+217bp
Capital Power Corp 4.50% Ser 5	CPX.PR.E	Pfd-3L	P-3	\$14.58	\$1.125	7.72	30-Jun-18	28.59	+315 bp
Capital Power Corp 4.60% Ser 3	CPX.PR.C	Pfd-3L	P-3	\$14.88	\$1.150	7.73	31-Dec-18	24.03	+323 bp
Capstone Infrastructure 5.00% Ser B	CSE.PR.A	NA	P-4 (H)	\$12.99	\$1.250	9.62	31-Jul-17	52.94	+271 bp
Dundee Corp 5.688% Ser 2	DC.PR.B	NA	NA	\$10.80	\$1.688	15.63	30-Sep-19	32.59	+410 bp
Element Financial Corp 6.40% Ser E	EFN.PR.E	Pfd-3	NA	\$22.49	\$1.600	7.11	30-Sep-19	9.68	+472 bp
Element Financial Corp 6.50% Ser C	EFN.PR.C	Pfd-3	NA	\$22.49	\$1.625	7.23	30-Jun-19	10.00	+481 bp
Element Financial Corp 6.50% Ser G	EFN.PR.G	Pfd-3	NA	\$23.95	\$1.625	6.78	30-Sep-20	7.59	+534 bp
Element Financial Corp 6.60% Ser A	EFN.PR.A	Pfd-3	NA	\$22.66	\$1.650	7.28	30-Dec-18	10.34	+441 bp
Equitable Group Inc 6.35% Ser 3	EQB.PR.C	NA	NA	\$22.45	\$1.588	7.07	30-Sep-19	9.68	+478 bp
Fairfax Financial Hld 2.91% Ser E	FFH.PR.E	Pfd-3	P-3	\$14.00	\$0.728	5.20	31-Mar-20	18.00	+216 bp
Fairfax Financial Hld 3.318% Ser G	FFH.PR.G	Pfd-3	P-3	\$15.80	\$0.830	5.25	30-Sep-20	14.13	+256 bp
Fairfax Financial Hld 3.708% Ser I	FFH.PR.I	Pfd-3	P-3	\$17.26	\$0.927	5.37	31-Dec-20	12.08	+285 bp
Fairfax Financial Hld 4.578% Ser C	FFH.PR.C	Pfd-3	P-3	\$19.90	\$1.145	5.75	31-Dec-19	11.00	+315 bp
Fairfax Financial Hld 4.75% Ser M	FFH.PR.M	Pfd-3	P-3	\$22.68	\$1.188	5.24	31-Mar-20	7.34	+398 bp
Fairfax Financial Hld 5.00% Ser K	FFH.PR.K	Pfd-3	P-3	\$20.89	\$1.250	5.98	31-Mar-17	20.55	+351 bp
First National Financial Corp 4.65% Ser 1	FN.PR.A	Pfd-3	NA	\$10.69	\$1.163	10.87	31-Mar-16	617.36	+207 bp
GMP Capital Inc. 5.50% Ser B	GMP.PR.B	Pfd-3L	NA	\$11.75	\$1.375	11.70	31-Mar-16	521.95	+289 bp
Innervex Renewable Energy Inc 3.608%	INE.PR.A	NR	P-3	\$13.35	\$0.902	6.76	15-Jan-21	17.80	+279 bp
Laurentian Bank 4.00% Ser 11	LB.PR.F	Pfd-3H	P-3 (H)	\$23.90	\$1.000	4.18	15-Dec-17	6.57	+260 bp
Northland Power Inc. 3.51% Ser 1	NPL.PR.A	NA	P-3 (H)	\$15.03	\$0.878	5.84	30-Sep-20	15.60	+280 bp
Northland Power Inc. 5.00% Ser 3	NPL.PR.C	NA	P-3 (H)	\$19.43	\$1.250	6.43	31-Dec-17	18.76	+346 bp
Pembina Pipeline 4.25% Ser 1	PPL.PR.A	Pfd-3	P-3 (H)	\$16.70	\$1.063	6.36	1-Dec-18	19.75	+247 bp
Pembina Pipeline 4.50% Ser 7	PPL.PR.G	Pfd-3	P-3 (H)	\$19.30	\$1.125	5.83	1-Dec-19	12.06	+294 bp
Pembina Pipeline 4.70% Ser 3	PPL.PR.C	Pfd-3	P-3 (H)	\$18.10	\$1.175	6.49	1-Mar-19	16.27	+260 bp
Pembina Pipeline 4.75% Ser 9	PPL.PR.I	Pfd-3	P-3 (H)	\$22.09	\$1.188	5.38	1-Dec-20	7.74	+391 bp
Pembina Pipeline 5.00% Ser 5	PPL.PR.E	Pfd-3	P-3 (H)	\$19.40	\$1.250	6.44	1-Jun-19	13.51	+300 bp
Riocan RET 4.70% Series C (ROC)	REI.PR.C	Pfd-3H	P-3 (H)	\$22.50	\$1.175	5.22	30-Jun-17	12.26	+318 bp
Riocan RET 5.25% Series A (ROC)	REI.PR.A	Pfd-3H	P-3 (H)	\$18.26	\$1.313	7.19	31-Mar-16	170.72	+262 bp
Rona Inc. 5.25% Ser 6 Class A	RON.PR.A	Pfd-4H	P-4 (H)	\$14.02	\$1.313	9.37	31-Mar-16	360.47	+265 bp
Shaw Comm Inc. 4.50% Ser A	SJR.PR.A	Pfd-3 / -	P-3	\$14.20	\$1.125	7.92	30-Jun-16	144.62	+200 bp
TransAlta 4.60% Corp Ser A	TA.PR.D	Pfd-3	P-3	\$9.90	\$1.150	11.62	31-Mar-16	707.85	+203 bp
TransAlta 4.60% Corp Ser C	TA.PR.F	Pfd-3	P-3	\$12.30	\$1.150	9.35	30-Jun-17	58.22	+310 bp
TransAlta 5.00% Corp Ser E	TA.PR.H	Pfd-3	P-3	\$13.72	\$1.250	9.11	30-Sep-17	43.50	+365 bp
TransAlta 5.30% Corp Ser G	TA.PR.J	Pfd-3	P-3	\$14.85	\$1.325	8.92	30-Sep-19	21.41	+380 bp
Veresen Inc 4.40% Ser A	VSN.PR.A	Pfd-3	P-3 (H)	\$16.27	\$1.100	6.76	30-Sep-17	31.36	+292 bp
Veresen Inc 5.00% Ser C	VSN.PR.C	Pfd-3	P-3 (H)	\$17.55	\$1.250	7.12	31-Mar-19	17.27	+301 bp

Source: Bloomberg, ScotiaMcLeod.

NVCC Rate Reset Preferred Share Table

Issuer Investment Grade (P1-P2)	RATING			Price Dec 31/15	Div	Current Yield	REDEMPTION		
	TSE Symbol	DBRS	S&P				Reset/Call Date	Yield to Reset	Reset Rate (5 - YR CAN)
Bank of Montreal 3.80% Ser 31	Ⓞ BMO.PR.W	Pfd-2	P-3 (H)	\$19.50	\$0.950	4.87	25-Nov-19	10.97	+222 bp
Bank of Montreal 3.80% Ser 33	Ⓞ BMO.PR.Y	Pfd-2	P-3 (H)	\$21.61	\$0.950	4.40	25-Aug-20	7.39	+271 bp
Bank of Montreal 3.90% Ser 29	Ⓞ BMO.PR.T	Pfd-2	P-3 (H)	\$19.76	\$0.975	4.93	25-Aug-19	11.15	+224 bp
Bank of Montreal 4.00% Ser 27	Ⓞ BMO.PR.S	Pfd-2	P-3 (H)	\$20.13	\$1.000	4.97	25-May-19	11.17	+233 bp
Bank of Nova Scotia 5.50% Ser 34	Ⓞ BNS.PR.E	Pfd-2	P-2 (L)	\$25.75	\$1.375	5.34	27-Apr-21	4.92	+451 bp
CIBC 3.60% Ser. 43	Ⓞ CM.PR.Q	Pfd-2	P-3 (H)	\$20.75	\$0.900	4.34	31-Jul-20	8.02	+279 bp
CIBC 3.75% Ser. 41	Ⓞ CM.PR.P	Pfd-2	P-3 (H)	\$20.00	\$0.940	4.70	31-Jan-20	9.68	+224 bp
CIBC 3.90% Ser. 39	Ⓞ CM.PR.O	Pfd-2	P-3 (H)	\$20.34	\$0.975	4.79	31-Jul-19	10.11	+232 bp
National Bank 3.90% Ser 32	Ⓞ NA.PR.W	Pfd-2L	P-3 (H)	\$19.20	\$0.975	5.08	15-Feb-20	10.85	+225 bp
National Bank 4.10% Ser 30	Ⓞ NA.PR.S	Pfd-2L	P-3 (H)	\$19.60	\$1.025	5.23	15-May-19	11.85	+240 bp
Royal Bank 3.60% Ser BD	Ⓞ RY.PR.J	Pfd-2	P-2	\$20.75	\$0.900	4.34	24-May-20	8.40	+274 bp
Royal Bank 3.60% Ser BF	Ⓞ RY.PR.M	Pfd-2	P-2	\$20.64	\$0.900	4.36	24-Nov-20	8.06	+262 bp
Royal Bank 3.90% Ser BB	Ⓞ RY.PR.H	Pfd-2	P-2	\$19.56	\$0.975	4.98	24-Aug-19	11.47	+226 bp
Royal Bank 4.00% Ser. AZ	Ⓞ RY.PR.Z	Pfd-2	P-2	\$19.64	\$1.000	5.09	24-May-19	11.99	+221 bp
Royal Bank 5.50% Ser BK	Ⓞ RY.PR.Q	Pfd-2	P-2	\$25.79	\$1.375	5.33	24-May-21	4.89	+453 bp
TD Bank 3.60% Ser 7	Ⓞ TD.PF.D	Pfd-2	P-2	\$21.18	\$0.90	4.25	31-Jul-20	7.78	+279 bp
TD Bank 3.70% Ser 9	Ⓞ TD.PF.E	Pfd-2	P-2	\$22.32	\$0.925	4.14	31-Oct-20	6.47	+287 bp
TD Bank 3.75% Ser 5	Ⓞ TD.PF.C	Pfd-2	P-2	\$19.60	\$0.94	4.78	31-Jan-20	10.56	+225 bp
TD Bank 3.80% Ser 3	Ⓞ TD.PF.B	Pfd-2	P-2	\$19.69	\$0.975	4.95	31-Jul-19	11.37	+227 bp
TD Bank 3.90% Ser 1	Ⓞ TD.PF.A	Pfd-2	P-2	\$19.84	\$0.975	4.91	31-Oct-19	10.80	+224 bp
Non-Investment Grade (P3-P4)									
Canadian Western Bank 4.40% Ser 5	Ⓞ CWB.PR.B	Pfd-3	N/A	\$17.65	\$1.100	6.23	30-Apr-19	16.41	+267 bp
Laurentian Bank 4.30% Ser 13	Ⓞ LB.PR.H	Pfd-3	P-3 (L)	\$18.01	\$1.075	5.97	15-Jun-19	14.95	+255 bp

Source: Bloomberg, Portfolio Advisory Group.

Non - NVCC Rate Reset Preferred Share Table

Issuer Investment Grade (P1-P2)	RATING			Price Dec 31/15	Div	Current Yield	REDEMPTION		
	TSE Symbol	DBRS	S&P				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 (L)	\$24.65	\$0.848	3.44	25-Aug-18	4.11	+165 bp
Bank of Montreal 3.90% Ser 25	BMO.PR.Q	Pfd-2H	P-2 (L)	\$21.82	\$0.975	4.47	25-Aug-16	27.25	+115 bp
BNS 3.35% Ser. 18	BNS.PR.P	Pfd-2H	P-2	\$24.98	\$0.838	3.35	26-Apr-18	3.31	+205 bp
BNS 3.61% Ser. 20	BNS.PR.Q	Pfd-2H	P-2	\$24.56	\$0.903	3.67	26-Oct-18	4.21	+170 bp
BNS 3.83% Ser. 22	BNS.PR.R	Pfd-2H	P-2	\$24.63	\$0.958	3.89	26-Jan-19	4.28	+188 bp
BNS 1.82% Ser. 30	BNS.PR.Y	Pfd-2H	P-2	\$20.81	\$0.455	2.19	26-Apr-20	6.27	+100 bp
BNS 2.063% Ser. 32	BNS.PR.Z	Pfd-2H	P-2	\$20.92	\$0.516	2.47	2-Feb-21	5.76	+134 bp
National 3.80% Ser. 28	NA.PR.Q	Pfd-2	P-2 (L)	\$25.49	\$0.950	3.73	15-Nov-17	2.49	+243 bp
Royal Bank 3.52% Ser. AJ	RY.PR.I	Pfd-2H	P-2 (H)	\$24.56	\$0.813	3.31	24-Feb-19	4.26	+193 bp
Royal Bank 4.26% Ser. AL	RY.PR.L	Pfd-2H	P-2 (H)	\$25.49	\$1.065	4.18	24-Feb-19	3.76	+267 bp
TD Bank 3.371% Ser. S	TD.PR.S	Pfd-2H	P-2 (H)	\$24.64	\$0.843	3.42	30-Jul-18	4.23	+160 bp
TD Bank 3.5595% Ser. Y	TD.PR.Y	Pfd-2H	P-2 (H)	\$24.61	\$0.890	3.62	30-Oct-18	4.40	+168 bp

Source: Bloomberg, Portfolio Advisory Group.

Minimum Dividend Rate Reset Preferred Share Table

Issuer Investment Grade (P1-P2)	RATING			Price Dec 31/15	Div	Current Yield	REDEMPTION		
	TSE Symbol	DBRS	S&P				Reset/Call Date	Yield to Reset	Reset Rate (5 - YR CAN)
Brookfield Asset Mgmt 5.00% Ser 44	BAM.PF.H	Pfd-2L	P-2	\$26.10	\$1.250	4.79	31-Dec-20	4.04	+417 bp
Brookfield Infra Partners LP 5.50% Ser 3	BIP.PR.B	N/A	P-2 (L)	\$24.05	\$1.375	5.72	31-Dec-20	6.50	+453 bp
Canadian Utilities Ltd 4.50% Ser FF	CJ.PR.I	Pfd-2H	P-2 (H)	\$26.00	\$1.125	4.33	1-Dec-20	3.70	+369 bp
Westcoast Energy 5.25% Ser 10	W.PR.K	Pfd-2L	P-3 (H)	\$24.80	\$1.313	5.29	15-Jan-21	5.50	+426 bp
Non-Investment Grade (P3-P4)									
AltaGas Ltd. 5.25% Ser I	ALA.PR.I	Pfd-3	P-3 (H)	\$25.10	\$1.313	5.23	31-Dec-20	5.30	+419 bp
Brookfield Renew Energy Part LP 5.50% Ser 7	BEP.PR.G	Pfd-3H	P-3 (H)	\$24.70	\$1.375	5.57	31-Jan-21	5.92	+447 bp

Source: Bloomberg, Portfolio Advisory Group.

Fixed Floating Rate Preferred Shares

Type	Relationship with Interest Rates	Underlying Benchmark Yield	Maturity Date	Comments
Fixed Floating	Direct	5-year bond yield	No	

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 the issuer will only redeem if it is in their best interest. Additionally, the issuer has a great degree of flexibility when resetting the fixed dividend rate.

Sector Trends: There were two securities with reset dates in 2015 (BCE.PR.F & BCE.PR.R) which were extended with lower dividends. BCE Inc.’s only stipulation when setting the new fixed dividend rate is that they are required to pay an annual dividend rate greater than or equal to the 80% Government of Canada 5-year bond yield. During the BCE.PR.F conversion option, 54% of the holders opted to move into the floating rate series (BCE.PR.E). In December, BCE.PR.R set its new fixed divided rate at 4.13% (down from the previous 4.49%). This new fixed dividend rate was much higher than the floating rate dividend (2.70%) and therefore less than 1,000,000 shares opted for the floating rate leading to a floating rate counterpart not being created.

This year there are four fixed floating preferred shares which will announce new fixed dividend rates (see table on following page). This type of preferred tends to be more illiquid than other types of preferred shares and will likely remain under pressure as new dividend rates will likely reset at much lower rates.

Fixed Floating Rate Preferred Share Table

Issuer	TSE Symbol	RATING		Price		Current Yield	REDEMPTION		
		DBRS	S&P	Dec 31/15	Div		Reset Date	Yield to Reset	Reset Rate
Investment Grade (P1-P2)									
Brookfield Asset 3.80% S 9	BAM.PR.G	Pfd-2L	P-2	\$14.13	\$0.950	6.72	1-Nov-16	83.47	>= 80% 5-yr CAN
BCE 3.45% Ser. AA	BCE.PR.A	Pfd-3H	P-2 (L)	\$14.85	\$0.863	5.81	1-Sep-17	37.91	>= 80% 5-yr CAN
BCE 3.55% Ser. AC	BCE.PR.C	Pfd-3H	P-2 (L)	\$15.25	\$0.888	5.82	1-Mar-18	28.73	>= 80% 5-yr CAN
BCE Inc. 3.11% Ser. AF	BCE.PR.F	Pfd-3H	P-2 (L)	\$14.15	\$0.778	5.49	1-Feb-20	18.42	>= 80% 5-yr CAN
BCE Inc. 4.50% Ser. AG	BCE.PR.G	Pfd-3H	P-2 (L)	\$14.11	\$1.125	7.97	1-May-16	235.37	>= 80% 5-yr CAN
BCE Inc. 4.15% Ser. AI	BCE.PR.I	Pfd-3H	P-2 (L)	\$14.17	\$1.038	7.32	1-Aug-16	119.12	>= 80% 5-yr CAN
BCE 4.13% Ser. R	BCE.PR.R	Pfd-3H	P-2 (L)	\$17.08	\$1.033	6.05	1-Dec-20	13.10	>= 80% 5-yr CAN
BCE 3.393% Ser. T	BCE.PR.T	Pfd-3H	P-2 (L)	\$14.00	\$0.848	6.06	1-Nov-16	81.91	>= 80% 5-yr CAN
BCE 3.152% Ser. Z	BCE.PR.Z	Pfd-3H	P-2 (L)	\$13.98	\$0.790	5.65	1-Dec-17	36.55	>= 80% 5-yr CAN
Non-Investment Grade (P3-P4)									
Bombardier 3.134% Ser.3	BBD.PR.D	NA	P-5	\$6.85	\$0.784	11.44	31-Jul-17	100.85	>= 80% 5-yr CAN

Source: Bloomberg, ScotiaMcLeod.

Floating Rate Preferred Shares

Type	Relationship with Interest Rates	Underlying Benchmark Yield	Maturity Date	Comments
Floating Rate	Direct	90-Day T-Bills/ Bank Prime	No	
Bank Floating Rate	Direct	90-Day T-Bills	No	Will no longer qualify as Tier 1 Capital post 2022

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 some 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.

Subsectors:

1. **Bank Floating Rate:** These securities are not convertible into common shares (non-NVCC) and will no longer qualify as Tier 1 Capital post 2022 as per Basel III regulations.

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 limited expectation for a rise in short term rates. For the preferred share investor this may provide an opportunity for capital gains if the investor is expecting short term interest rates to move higher 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 pertain to interest rate expectations as well as supply and demand. If interest rates are expected to decline, the monthly/quarterly income (dividend payments) may be reduced. With respect to the ratcheting mechanism, there is a risk that it is not significant enough to keep the preferred share trading close to its par value. 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 thirteen new floating rate preferred shares created during 2015, as rate resets were extended and holders opted to convert into a floating rate preferred share. The demand for the floating rate option was dependent on the interest rate environment as well as the outlook on the global economy. During the latter half of 2015, the demand for the floating rate sector waned and lower percentages were converted. This may have also been impacted by the notion that the previously created floating rate preferred shares were trading at a discount (up to approx. 10%) to their fixed counterparts.

Sector Trends: This sector will likely expand in 2016 as more floating rate securities are created as the 2016 rate resets extend. With the added supply of product in an interest rate environment that is not warranting a strong demand for this type of product, prices have the potential to drift lower.

While the non-NVCC bank floating rate preferred shares have dropped in price year-over-year as the dividend was reduced following the move lower in 90-day T-Bills, these securities outperformed the rest of the floating rate sector. These bank floaters are not convertible into common shares and therefore post 2022 will not qualify as Tier 1 Capital as per Basel III regulations. Going forward, the floating rate sector of the market will continue to fluctuate based on short-term interest rate expectations.

Bank Floating Rate Preferred Share Table

Issuer	TSE Symbol	RATING		Price Dec 31/15	Exp Div Based on Last Pmt	Current Yield	Payment Frequency	Floating Rate	Yield to Call Based on 90-Convertible			REDEMPTION	
		DBRS	S&P						Reset Date	T-Bill	Into	Call Date	Call Price
Bank of Montreal Ser. 17	BMO.PR.R	Ffd-2H	P-2 (L)	\$23.25	\$0.515	2.21	Quarterly	90-Day T-Bill +1.65%	25-Aug-18	5.12	BMO.PR.M	ANYTIME	25.50
Bank of Nova Scotia Ser. 19	BNS.PR.A	Ffd-2H	P-2	\$23.00	\$0.618	2.68	Quarterly	90-Day T-Bill +2.05%	26-Apr-18	6.26	BNS.PR.P	ANYTIME	25.50
Bank of Nova Scotia Ser. 21	BNS.PR.B	Ffd-2H	P-2	\$22.35	\$0.530	2.37	Quarterly	90-Day T-Bill +1.70%	26-Oct-18	6.30	BNS.PR.Q	ANYTIME	25.50
Bank of Nova Scotia Ser. 23	BNS.PR.C	Ffd-2H	P-2	\$22.76	\$0.575	2.53	Quarterly	90-Day T-Bill +1.88%	26-Jan-19	5.55	BNS.PR.R	ANYTIME	25.50
Bank of Nova Scotia Ser. 31	BNS.PR.D	Ffd-2H	P-2	\$19.46	\$0.355	1.82	Quarterly	90-Day T-Bill +1.00%	26-Apr-20	7.57	BNS.PR.Y	ANYTIME	25.50
Royal Bank of Canada Ser. AK	RY.PR.K	Ffd-2	P-2 (H)	\$23.50	\$0.586	2.49	Quarterly	90-Day T-Bill +1.93%	24-Feb-19	4.60	RY.PR.I	ANYTIME	25.50
TD Bank Ser T	TD.PR.T	Ffd-2H	P-2 (H)	\$22.41	\$0.503	2.25	Quarterly	90-Day T-Bill +1.60%	30-Jul-18	6.72	TD.PR.S	ANYTIME	25.50
TD Bank Ser Z	TD.PR.Z	Ffd-2H	P-2 (H)	\$22.40	\$0.525	2.34	Quarterly	90-Day T-Bill +1.68%	30-Oct-18	6.42	TD.PR.Y	ANYTIME	25.50

Source: Bloomberg, Portfolio Advisory Group.

Floating Rate Preferred Share Table

Issuer	TSE Symbol	RATING		Price Dec 31/15	Exp Div Based on Last Pmt	Current Yield	Payment Frequency	Floating Rate	Convertible		REDEMPTION	
		DBRS	S&P						Reset Date	Into	Call Date	Call Price
Brookfield Asset A Ser. 4	BAM.PR.C	Ffd-2L	P-2	\$10.96	\$0.473	4.31	Quarterly	70% of Prime	N/A	N/A	ANYTIME	25.00
Brookfield Asset A Ser. 2	BAM.PR.B	Ffd-2L	P-2	\$11.00	\$0.473	4.30	Quarterly	70% of Prime	N/A	N/A	ANYTIME	25.00
Brookfield Asset A Ser. 8	BAM.PR.E	Ffd-2L	P-2	\$14.41	\$0.713	4.94	Monthly	50% < 100% of Prime	1-Nov-16	BAM.PR.G	ANYTIME	25.00
Brookfield Asset A Ser. 13	BAM.PR.K	Ffd-2L	P-2	\$10.77	\$0.473	4.39	Quarterly	70% of Prime	N/A	N/A	ANYTIME	25.00
Brookfield Asset A Ser. 14	BAM.PR.L	Ffd-2L	P-2	\$100.10	\$1.796	1.79	Monthly	63% of Prime	N/A	N/A	ANYTIME	100.00
Fortis Inc Ser I	FTS.PR.I	Ffd-2L	P-2	\$12.75	\$0.461	3.61	Quarterly	90 Day T-Bill +1.45%	1-Jun-20	FTS.PR.H	ANYTIME	25.50
Great-West Lifeco Inc. Ser O	GWO.PR.O	Ffd-2H	P-1 (L)	\$14.00	\$0.436	3.11	Quarterly	90-Day T-Bill +1.30%	31-Dec-20	GWO.PR.N	ANYTIME	25.50
Power Corp. 1986 Series	POW.PR.F	Ffd-2	P-2 (H)	\$29.00	\$0.998	3.44	Quarterly	70% of Prime	N/A	N/A	ANYTIME	50.00
Power Finl. Ser. A	PWF.PR.A	Ffd-2H	P-1 (L)	\$13.00	\$0.499	3.84	Quarterly	70% of Prime	N/A	N/A	ANYTIME	25.00
Sun Life Financial Inc Ser. 9QR	SLF.PR.J	Ffd-2	P-2 (H)	\$14.20	\$0.456	3.21	Quarterly	90-Day T-Bill +1.41%	30-Jun-20	SLF.PR.G	ANYTIME	25.50
TransCanada Corp Ser 2	TRP.PR.F	Ffd-2L	P-2	\$13.65	\$0.590	4.32	Quarterly	90-Day T-Bill +1.92%	31-Dec-19	TRP.PR.A	ANYTIME	25.50
TransCanada Corp Ser 4	TRP.PR.H	Ffd-2L	P-2	\$10.50	\$0.425	4.05	Quarterly	90-Day T-Bill +1.28%	30-Jun-20	TPR.PR.B	ANYTIME	25.50
Non-Investment Grade (P3-P4)												
Aimia (Group Aeroplan) Ser 2	AIM.PR.B	Ffd-3L	P-3	\$12.10	\$1.043	8.62	Quarterly	90 Day T-Bill +3.75%	31-Mar-20	AIM.PR.A	ANYTIME	25.50
AltaGas Ser B	ALA.PR.B	Ffd-3	P-3 (H)	\$13.86	\$0.770	5.56	Quarterly	90 Day T-Bill +2.66%	30-Sep-20	ALA.PR.A	ANYTIME	25.50
Atlantic Power Ser 3	AZP.PR.C	N/A	P-5	\$10.85	\$1.150	10.60	Quarterly	90 Day T-Bill +4.18%	31-Dec-19	AZP.PR.B	ANYTIME	25.50
BCE Inc. Ser. AB	BCE.PR.B	Ffd-3H	P-2 (L)	\$13.82	\$0.713	5.16	Monthly	50% < 100% of Prime	1-Sep-17	BCE.PR.A	ANYTIME	25.50
BCE Inc. Ser. AD	BCE.PR.D	Ffd-3H	P-2 (L)	\$14.00	\$0.713	5.09	Monthly	50% < 100% of Prime	1-Mar-18	BCE.PR.C	ANYTIME	25.50
BCE Inc. Ser. AJ	BCE.PR.J	Ffd-3H	P-2 (L)	\$13.86	\$0.713	5.14	Monthly	50% < 100% of Prime	1-Aug-16	BCE.PR.I	ANYTIME	25.50
BCE Inc. Ser. S	BCE.PR.S	Ffd-3H	P-2 (L)	\$14.00	\$0.713	5.09	Monthly	50% < 100% of Prime	1-Nov-16	BCE.PR.T	ANYTIME	25.50
BCE Inc. Ser. Y	BCE.PR.Y	Ffd-3H	P-2 (L)	\$13.80	\$0.713	5.16	Monthly	50% < 100% of Prime	1-Dec-17	BCE.PR.Z	ANYTIME	25.50
BCE Inc. Series AE	BCE.PR.E	Ffd-3H	P-2 (L)	\$13.95	\$0.713	5.11	Monthly	50% < 100% of Prime	1-Feb-20	BCE.PR.F	ANYTIME	25.50
BCE Inc. Series AH	BCE.PR.H	Ffd-3H	P-2 (L)	\$13.87	\$0.713	5.14	Monthly	50% < 100% of Prime	1-May-16	BCE.PR.G	ANYTIME	25.50
Bombardier Ser. 2	BBD.PR.B	N/A	P-5	\$6.66	\$0.713	10.70	Monthly	50% < 100% of Prime	1-Aug-17	BBD.PR.D	1-Aug-17	25.00
Brookfield Office Prop Ser V	BPO.PR.X	Ffd-3	P-3	\$10.39	\$0.499	4.80	Quarterly	70% of Prime	N/A	N/A	ANYTIME	25.00
Brookfield Office Prop Ser W	BPO.PR.W	Ffd-3	P-3	\$9.86	\$0.499	5.06	Quarterly	70% of Prime	N/A	N/A	ANYTIME	25.00
Brookfield Office Prop Ser Y	BPO.PR.Y	Ffd-3	P-3	\$9.35	\$0.499	5.33	Quarterly	70% of Prime	N/A	N/A	ANYTIME	25.00
Brookfield Renewable Ser. 2	BRF.PR.B	Ffd-3H	P-3 (H)	\$14.45	\$0.760	5.26	Quarterly	90 Day T-Bill +2.62%	30-Apr-20	BRF.PR.A	ANYTIME	25.50
Dundee Corp Ser. 3	DC.PR.D	N/A	N/A	\$8.60	\$1.130	13.14	Quarterly	90 Day T-Bill +4.10%	30-Sep-19	DC.PR.B	ANYTIME	25.50
Emera Inc Ser. B	EMA.PR.B	Ffd-3H/	P-2L	\$13.11	\$0.570	4.35	Quarterly	90 Day T-Bill +1.84%	15-Aug-20	EMA.PR.A	ANYTIME	25.50
Fairfax Financial Holdings Ser D	FFH.PR.D	Ffd-3	P-3	\$17.45	\$0.889	5.09	Quarterly	90 Day T-Bill +3.15%	31-Dec-19	FFH.PR.C	ANYTIME	25.50
Fairfax Financial Holdings Ser F	FFH.PR.F	Ffd-3	P-3	\$12.95	\$0.639	4.94	Quarterly	90 Day T-Bill +2.16%	31-Mar-20	FFH.PR.D	ANYTIME	25.50
Fairfax Financial Holdings Ser H	FFH.PR.H	Ffd-3	P-3	\$13.80	\$0.732	5.30	Quarterly	90 Day T-Bill +2.56%	30-Sep-20	FFH.PR.G	ANYTIME	25.50
Fairfax Financial Holdings Ser J	FFH.PR.J	Ffd-3	P-3	\$17.26	\$0.838	4.86	Quarterly	91 Day T-Bill +2.85%	31-Dec-20	FFH.PR.I	ANYTIME	25.50
Northland Power Inc Ser 2	NPL.PR.B	N/A	P-3 (H)	\$13.25	\$0.805	6.08	Quarterly	90 Day T-Bill +2.80%	30-Sep-20	NPL.PR.A	ANYTIME	25.50
Thomson Reuters Ser. II	TRL.PR.B	Ffd-3H	P-2 (L)	\$11.53	\$0.499	4.33	Quarterly	70% of Prime	N/A	N/A	ANYTIME	25.00

Source: Bloomberg, Portfolio Advisory Group.

Split Preferred Shares

Type	Relationship with Interest Rates	Underlying Benchmark Yield	Maturity Date	Comments
Split Share	Indirect	Based on maturity date	Yes	

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.

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 39 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 39.

Advantages: 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 ten 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. Brompton Oil Split was a new name in the split share space. The underlying portfolio consists of 15 large cap North American oil and gas issues which are approximately equal weighted. BNS Split Corp II was issued to replace a split share that was redeemed while Partners Value Split Series 7 was issued to fund a future redemption (PVS.PR.A – March 2016). TD Split Inc. (TDS.PR.C) was redeemed without any re-issuance. Additionally, throughout the year, there were also various split share 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.

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 Which Pay Interest										
Issuer	TSE Symbol	RATING			Price Dec 31/15	Div	RETRACTION			Downside Protection
		DBRS	S&P				Date	Price	Pre-tax YTR	
Investment Grade (P1-P2)										
Utility Split Trust 5.25% Class B	UST.PR.B	Pfd-2	N/A	\$10.13	\$0.525	31-Dec-16	10.00	2.67	61.42%	
Non-Investment Grade (P3-P5)										
Brookfield SoundVest	BSD.PR.A	Pfd-4L	N/A	\$9.35	\$0.600	31-Mar-20	10.00	7.87	5.66%	
Faircourt Split Trust	FCS.PR.C	Pfd-3L	N/A	\$10.08	\$0.600	30-Jun-19	10.00	5.78	34.94%	
Top 10 Split Trust 6.25%	TXT.PR.A	N/A	N/A	\$12.46	\$0.781	30-Mar-16	12.50	8.31	22.36%	

Source: Bloomberg, Portfolio Advisory Group.

Split Shares Based on a Single Common Share										
Issuer	TSE Symbol	RATING			Price Dec 31/15	Div	RETRACTION			Downside Protection
		DBRS	S&P				Date	Price	Pre-tax YTR	
Investment Grade (P1-P2)										
Partners Value Split 4.35% Class AA Ser 3	PVS.PR.B	Pfd-2L	N/A	\$24.26	\$1.088	10-Jan-19	25.00	5.43	76.73%	
Partners Value Split 4.5% Class AA Ser 6	PVS.PR.D	Pfd-2L	N/A	\$23.00	\$1.125	8-Oct-21	25.00	6.18	76.73%	
Partners Value Split 4.85% Class AA Ser 5	PVS.PR.C	Pfd-2L	N/A	\$24.99	\$1.213	10-Dec-17	25.00	5.07	76.73%	
Partners Value Split 4.95% Class AA Ser 1	PVS.PR.A	Pfd-2L	N/A	\$25.10	\$1.238	25-Mar-16	25.00	3.92	76.73%	
Partners Value Split 5.50% Class AA Ser 7	PVS.PR.E	Pfd-2L	N/A	\$24.45	\$1.375	31-Oct-22	25.00	5.87	75.13%	
R Split III Corp. 4.25%	RBS.PR.B	Pfd-2	N/A	\$13.77	\$0.578	31-May-17	13.60	3.65	72.81%	
Non-Investment Grade (P3-P5)										
BNS Split Corp. II 4.00%	BSC.PR.C	N/A	N/A	\$20.00	\$0.788	22-Sep-20	19.71	3.69	61.27%	
New Comm Split 6.00% Class I	YCM.PR.A	N/A	N/A	\$5.10	\$0.300	1-Dec-19	5.00	5.36	52.20%	
New Comm Split 7.50% Class II	YCM.PR.B	N/A	N/A	\$4.40	\$0.375	1-Dec-19	5.00	11.30	8.42%	
S Split Corp. 5.25%	SBN.PR.A	Pfd-3	N/A	\$10.10	\$0.525	30-Nov-21	10.00	5.09	36.18%	
TDb Split Inc. 5.25%	XTD.PR.A	N/A	N/A	\$10.15	\$0.525	1-Dec-19	10.00	4.76	27.17%	

Source: Bloomberg, Portfolio Advisory Group.

Split Shares Based on an Underlying Portfolio of Common Shares

Issuer	TSE Symbol	RATING		Price		RETRACTION			Downside Protection
		DBRS	S&P	Dec 31/15	Div	Date	Price	Pre-tax YTR	
Investment Grade (P1-P2)									
5Banc Split Inc. 4.75% Class C	FBS.PR.C	Pfd-2	N/A	\$10.24	\$0.475	15-Dec-16	10.00	2.47	68.31%
Allbanc Split Corp. 4.00%	ABK.PR.C	Pfd-2	N/A	\$32.17	\$1.265	9-Mar-18	31.64	3.35	61.46%
Allbanc Split Corp. II 4.25%	ALB.PR.B	Pfd-2	N/A	\$21.80	\$0.927	28-Feb-16	21.80	7.49	62.35%
Big 8 Split Corp. Class D 4.50%	BIG.PR.D	Pfd-2L	N/A	\$10.27	\$0.450	15-Dec-18	10.00	3.63	55.87%
First Asset CanBanc Split 6.50%	CBU.PR.A	Pfd-2H	N/A	\$10.08	\$0.650	15-Jan-16	10.00	-34.75	76.48%
Global Champions Split Corp 4.00%	GCS.PR.A	Pfd-2	N/A	\$24.65	\$1.000	31-Jul-19	25.00	4.36	60.48%
Newgrowth Corp. Ser 3 4.15%	NEW.PR.D	Pfd-2	N/A	\$32.49	\$1.330	26-Jun-19	32.07	3.79	48.43%
Non-Investment Grade (P3-P5)									
Big Bank Big Oil Split 5.25%	BBO.PR.A	Pfd-3	N/A	\$10.00	\$0.525	16-Dec-16	10.00	4.19	31.51%
Brompton Life & Banc Split Corp. 4.75%	LBS.PR.A	Pfd-3L	N/A	\$9.92	\$0.475	29-Nov-18	10.00	4.82	43.98%
Brompton Lifeco Split 5.75%	LCS.PR.A	Pfd-4H	N/A	\$10.20	\$0.575	29-Apr-19	10.00	5.04	36.18%
Brompton Oil Split Corp 5.00%	OSP.PR.A	Pfd-3H	N/A	\$9.94	\$0.500	31-Mar-20	10.00	5.18	41.55%
Brompton Split Banc 4.50%	SBC.PR.A	Pfd-3H	N/A	\$10.09	\$0.450	30-Nov-17	10.00	3.66	54.67%
Canadian Banc Corp	BK.PR.A	Pfd-3H	N/A	\$10.54	\$0.500	1-Dec-18	10.00	2.95	52.61%
Cdn. Life Companies Split Corp 6.25%	LFE.PR.B	N/A	N/A	\$10.13	\$0.625	1-Dec-18	10.00	5.82	30.99%
Div. Growth Spltt 5.25%	DGS.PR.A	Pfd-3	N/A	\$10.05	\$0.525	29-Nov-19	10.00	5.15	38.20%
Dividend 15 Split 5.25%	DFN.PR.A	Pfd-3	N/A	\$10.24	\$0.525	1-Dec-19	10.00	4.51	44.07%
Dividend 15 Split II 5.25%	DF.PR.A	Pfd-3L	N/A	\$9.96	\$0.525	1-Dec-19	10.00	5.30	31.13%
Financial 15 Split 5.25%	FTN.PR.A	Pfd-4H	N/A	\$9.94	\$0.525	1-Dec-20	10.00	5.42	41.35%
North American Financial 15 5.25%	FFN.PR.A	Pfd-4H	N/A	\$9.96	\$0.525	1-Dec-19	10.00	5.40	38.80%
Premium Income Corp 5.75%	PIC.PR.A	NR	N/A	\$15.11	\$0.863	1-Nov-17	15.00	5.93	27.33%
Prime Dividend (floor rate 5.00%)	PDV.PR.A	Pfd-3H	N/A	\$10.16	\$0.500	1-Dec-18	10.00	4.56	36.63%
US Financial 15 Split 2012 Pref 5.25%	FTU.PR.B	N/A	N/A	\$6.90	\$0.401	1-Dec-18	10.00	16.78	-30.04%
World Financial Split 5.25%	WFS.PR.A	N/A	N/A	\$9.90	\$0.525	30-Jun-18	10.00	5.73	26.04%

Source: Bloomberg, Portfolio Advisory Group.

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 unmatched Capital Shares are retracted under a special annual retraction. 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 (\$21.80) on the annual retraction date (February) to the extent that unmatched Capital Shares are retracted under a special annual retraction. 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 two Capital Shares in the market, less \$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 unmatched capital shares are retracted. Preferred shares may also be retracted at any time at a 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 \$1.00.
5. **BNS Split Corp. II** can be redeemed by the company at par (\$19.71) on annual retraction date (September) to the extent that unmatched Capital Shares are retracted under a special annual retraction. The preferred shares may also be redeemed by the company anytime at a premium. 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 two Capital Shares in the market, less \$1.00.
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. If the fund is extended beyond April 29, 2019 then there is a special retraction right on April 29, 2019 equal to the lesser value of (i) \$10.00 plus any accrued and unpaid distributions and (ii) NAV of the Fund on that date divided by the number of Preferred Shares outstanding.
8. **Brompton Oil 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 (March) a holder can retract an equal number of Preferred Shares and Class A Shares each year for a retraction price per Unit to the NAV per Unit on that date.
9. **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. If the fund is extended beyond November 29, 2017 then there is a special retraction right on November 29, 2017 equal to the lesser value of (i) \$10.00 plus any accrued and unpaid distributions and (ii) NAV of the Fund on that date divided by the number of Preferred Shares outstanding.
10. **Canadian Banc Recovery Corp.** preferred shares can be retracted at any time on a monthly basis. Investors retracting preferred shares will receive an amount 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 commissions and other costs (to a maximum of 1% of the NAV per unit) related to liquidating the Portfolio to pay such redemption amount.
11. **Canadian Life Companies Split** preferred shares can be retracted on a monthly basis for an amount 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.
12. **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.

Split Preferred Shares Retraction Features (cont'd)

13. **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.
14. **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 (Feb, May, Aug, Nov) 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. If the fund is extended beyond November 28, 2019 then there is a special retraction right on November 28, 2019 equal to the lesser value of (i) \$10.00 plus any accrued and unpaid distributions and (ii) NAV of the Fund on that date divided by the number of Preferred Shares outstanding.
15. **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) \$0.65. A holder can also surrender one Preferred Share and one Capital Share for an amount equal to 95% of the Unit Value less \$0.65, unless surrendered on the special annual retraction date. 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.
16. **Faircourt Split Trust** preferred securities may be redeemed in whole or in part by the Trust at any time that the aggregate principal amount outstanding of the Preferred Securities exceeds 40% of the Total Assets. Preferred Securities may be surrendered together with an equal number of Capital Units for a price equal to the Combined Value determined as of the Redemption Date, less any costs and expenses incurred by the Trust in order to fund such redemption including brokerage and other transactions costs.
17. **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.
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. **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).
20. **Life & Banc Split Corp.** preferred shares can be retracted on a monthly basis for a retraction price equal to 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. If the fund is extended beyond November 29, 2018 then there is a special retraction right on November 29, 2018 equal to the lesser value of (i) \$10.00 plus any accrued and unpaid distributions and (ii) NAV of the Fund on that date divided by the number of Preferred Shares outstanding.
21. **NewGrowth Corp.** can be redeemed by the company at par (\$32.07) on the annual retraction date (June) to the extent that unmatched Capital Shares are retracted under a special annual retraction. 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.
22. **North American 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) 98% 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).
23. **Partners Value Split Corp Class AA Series 1 (PVS.PR.A)** preferred shares can be retracted on a monthly basis 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 March 25, 2016 and then the price will decline by \$0.25 per year beginning in March 2013 until March 25, 2016 at which time the redemption price will be \$25.00.
24. **Partners Value Split Corp Class AA Series 3 (PVS.PR.B)** preferred shares can be retracted on a monthly basis. 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 5** (PVS.PR.C) preferred shares can be retracted on a monthly basis. 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 prior to December 10, 2015 at \$26.00 plus accrued and unpaid dividends if capital shares have been retracted.
26. **Partners Value Split Corp Class AA Series 6** (PVS.PR.D) preferred shares can be retracted on a monthly basis. A holder retracting will receive a number of debentures (Series 4) 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 4 Debentures will be issued by the Company and have a principal amount of \$25.00 and will mature on October 8, 2021. The Preferred Shares are callable by the company at any time on or after October 8, 2019 and prior to October 8, 2021 at a price of \$25.50 plus accrued and unpaid dividend and which will decline by \$0.25 on October 8, 2020 and thereafter. Additionally, the Company can redeem the shares anytime prior to October 8, 2019 at \$26.00 plus accrued and unpaid dividends if capital shares have been retracted.
27. **Partners Value Split Corp Class AA Series 7** (PVS.PR.E) preferred shares can be retracted on a monthly basis. A holder retracting will receive a number of debentures (Series 5) 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 5 Debentures will be issued by the Company and have a principal amount of \$25.00 and will mature on October 31, 2022. The Preferred Shares are callable by the company at any time on or after October 31, 2020 and prior to October 31, 2022 at a price of \$25.50 plus accrued and unpaid dividend and which will decline by \$0.25 on October 31, 2021 and thereafter. Additionally, the Company can redeem the shares anytime prior to October 31, 2020 at \$26.00 plus accrued and unpaid dividends if capital shares have been retracted.
28. **Premium Income Corp** preferred shares are retractable monthly and holders will be entitled to receive a retraction price per share equal to 96% of the lesser of (i) the NAV per unit less the cost to the company to purchase 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.
29. **Prime Dividend Corp.** preferred shares can be retracted at any time on a monthly basis and will receive an amount 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.
30. **R Split III Corp** can be redeemed by the company at par (\$13.60) on the annual retraction date (May) to the extent that unmatched Capital Shares are retracted under a special annual retraction. 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.
31. **S Split Corp** preferred shares can be retracted on a monthly basis. A holder retracting 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.
32. **TD Split Inc.** preferred shares are redeemable at par (\$10.00) by the company on an annual retraction date, November 15th of each year, to the extent that capital shares are tendered for retraction without a preferred share. The Preferred Shares 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. Holders who surrender one Preferred Share and one Capital Share will receive an amount equal to 95% of the Unit value less \$1.00.
33. **Top 10 Split Trust** preferred shares can be retracted for redemption on a monthly or annual basis (December) when combined with a Capital Unit. The monthly retraction for the Capital Unit and Preferred shares concurrently redeemed will be equal to 95% equal to the lesser 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. A shareholder may concurrently retract one Preferred Share and one Class A share on an annual basis (June) for a price equal to the NAV per Unit 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.

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 company.

Currently, the securities outstanding in the market have the following conversion formula.

$\frac{\text{Multiplier x Par Value}}{\text{Conversion Price}} = \text{\# of Common Shares Issued per Preferred}$

Multiplier = 1.0 Par Value = \$25

Conversion Price is greater of:

- (1) \$5.00
- (2) Current market price of common shares (10 day volume weighted average trading price prior to trigger event)

	Avg common share price = \$2.00	Avg common share price = \$12.50
# of common shares/Pref	\$25/\$5 = 5 common shares	\$25/\$12.5 = 2 common shares

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 set 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 indefinitely (or until the company chooses to redeem the security) to the holder. The securities share price will move inversely to interest rates and will tend to behave similarly to long dated bonds in a period of rising interest rates—the fixed dividend becomes less attractive as rates rise.

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 OSFI determines that the bank is no longer viable. NVCC preferred shares will qualify as Tier 1 Capital for Banks as per Basel III regulations.

Par Value: For most types of preferred shares the stated face value of the preferred share is \$25.00, with the exception of Split Preferred Shares. Par value of a preferred share indicates the dollar amount of assets each share would be entitled to should the preferred share be redeemed by the company or 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 with a similar maturity date. 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 ($4.00\% \times 1.31$, 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). 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 2016

Proposed Marginal Tax Rates for Interest – Year 2016								
Province	Brackets (\$)	Up to \$45,282	Brackets (\$)	\$45,282 to \$90,563	Brackets (\$)	\$90,563 to \$140,388	Brackets (\$)	\$140,388 and over
Alberta	0	25.00%	45,282	30.50%	125,000	38.00%	300,000	48.00%
					90,563	36.00%	200,000	47.00%
British Columbia	38,210	22.70%	87,741	32.79%	106,543	40.70%	200,000	47.70%
	0	20.06%	76,421	31.00%	90,563	38.29%	150,000	42.00%
			45,282	28.20%			140,388	41.00%
Manitoba	31,000	27.75%	67,000	37.90%	90,563	43.40%	200,000	50.40%
	0	25.80%	45,282	33.25%			140,388	46.40%
New Brunswick	40,492	29.82%	80,985	37.02%	131,664	43.84%	250,000	58.75%
	0	24.68%	45,282	35.32%	90,563	42.52%	200,000	54.00%
							150,000	50.00%
Newfoundland	35,148	27.50%	70,295	33.80%	125,500	40.30%	200,000	48.30%
	0	22.70%	45,282	33.00%	90,563	39.30%	175,700	44.30%
							140,388	43.30%
Nova Scotia	29,590	29.95%	59,180	37.17%	93,000	43.50%	200,000	54.00%
	0	23.79%	45,282	35.45%	90,563	42.67%	150,000	50.00%
							140,388	46.50%
Ontario			86,176	37.91%			220,000	53.53%
	41,536	24.15%	83,075	33.89%	90,563	43.41%	200,000	51.97%
	0	20.05%	73,145	31.48%			150,000	47.97%
			45,282	29.65%			140,388	46.41%
Prince Edward Island	31,984	28.80%	63,969	37.20%	98,145	44.37%	200,000	51.37%
	0	24.80%	45,282	34.30%	90,563	42.70%	140,388	47.37%
Quebec	42,390	32.53%	84,780	41.12%	103,150	47.46%	200,000	53.31%
	0	28.53%	45,282	37.12%	90,563	45.71%	140,388	49.97%
Saskatchewan	44,601	28.00%	45,282	33.50%	127,430	41.00%	200,000	48.00%
	0	26.00%			90,563	39.00%	140,388	44.00%
Yukon	0	21.40%	45,282	29.50%	90,563	36.90%	500,000	48.00%
							200,000	45.80%
							140,388	41.80%

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 2016								
Province	Brackets (\$)		Brackets (\$)		Brackets (\$)		Brackets (\$)	
		Up to \$45,282		\$45,282 to \$90,563		\$90,563 to \$140,388		\$140,388 and over
Alberta	0	-0.03%	45,282	7.56%	125,000	17.91%	300,000	31.71%
					90,563	15.15%	200,000	30.33%
British Columbia	38,210	-3.20%	87,741	10.72%	106,543	21.64%	200,000	31.30%
	0	-6.84%	76,421	8.25%	90,563	18.31%	140,388	25.78%
			45,282	4.39%			150,000	23.43%
Manitoba	31,000	6.53%	67,000	20.53%	90,563	28.12%	200,000	37.78%
	0	3.84%	45,282	14.12%			140,388	32.26%
New Brunswick	40,492	3.86%	80,985	13.80%	131,664	23.21%	250,000	43.79%
	0	-3.23%	45,282	11.45%	90,563	21.39%	200,000	37.23%
							150,000	31.71%
Newfoundland	35,148	9.77%	70,295	18.46%	125,500	27.43%	200,000	38.47%
	0	3.15%	45,282	17.36%	90,563	26.05%	175,700	32.95%
							140,388	31.57%
Nova Scotia	29,590	8.39%	59,180	18.35%	93,000	27.09%	200,000	41.58%
	0	-0.11%	45,282	15.98%	90,563	25.94%	150,000	36.06%
							140,388	31.23%
Ontario			86,176	17.79%			220,000	39.34%
	41,536	-1.20%	83,075	12.24%	90,563	25.38%	200,000	37.19%
	0	-6.86%	73,145	8.92%			150,000	31.67%
			45,282	6.39%			140,388	29.52%
Prince Edward Island	31,984	4.53%	63,969	16.12%	98,145	24.56%	200,000	34.22%
	0	-0.99%	45,282	12.12%	90,563	23.71%	140,388	28.70%
Quebec	42,390	11.16%	84,780	23.01%	103,150	31.77%	200,000	39.83%
	0	5.64%	45,282	17.49%	90,563	29.35%	140,388	35.22%
Saskatchewan	44,601	2.73%	45,282	10.32%	127,430	20.67%	200,000	30.33%
	0	-0.03%			90,563	17.91%	140,388	24.81%
Yukon	0	-11.12%	45,282	-0.72%	90,563	9.50%	500,000	24.81%
							200,000	21.78%
						140,388	16.26%	

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	1.3133	Nova Scotia	1.2700
British Columbia	1.3136	Ontario	1.3054
Manitoba	1.2544	Prince Edward Island	1.3527
New Brunswick	1.3627	Quebec	1.2887
Newfoundland	1.1901	Saskatchewan	1.3398
		Yukon	1.4460

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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Emera Inc. 4.25% Ser F (EMA.PR.F)	29
Emera Inc. 4.50% Ser E (EMA.PR.E)	25
Enbridge Inc. 5.50% Ser A (ENB.PR.A)	25
Enbridge Inc. 4.00% Ser 3 (ENB.PR.Y)	29
Enbridge Inc. 4.00% Ser B (ENB.PR.B)	29
Enbridge Inc. 4.00% Ser D (ENB.PR.D)	29
Enbridge Inc. 4.00% Ser F (ENB.PR.F)	29
Enbridge Inc. 4.00% Ser H (ENB.PR.H)	29
Enbridge Inc. 4.00% Ser N (ENB.PR.N)	29
Enbridge Inc. 4.00% Ser P (ENB.PR.P)	29
Enbridge Inc. 4.00% Ser R (ENB.PR.T)	29
Enbridge Inc. 4.40% Ser 11 (ENB.PF.C)	29
Enbridge Inc. 4.40% Ser 13 (ENB.PF.E)	29
Enbridge Inc. 4.40% Ser 15 (ENB.PF.G)	29
Enbridge Inc. 4.40% Ser 7 (ENB.PR.J)	29
Enbridge Inc. 4.40% Ser 9 (ENB.PF.A)	29
Enbridge Inc. US\$ 4.00% Ser 1 (ENB.PR.V)	29
Enbridge Inc. US\$ 4.00% Ser J (ENB.PR.U)	29

Guide to Preferred Shares

Enbridge Inc. US\$ 4.00% Ser L (ENB.PF.U)	29
Enbridge Inc. US\$ 4.40% Ser 5 (ENB.PF.V)	29
Equitable Group Inc 6.35% Ser 3 (EQB.PR.C)	30
Faircourt Split Trust (FCS.PR.C)	37
Fairfax Financial Holdings 2.91% Ser E (FFH.PR.E)	30
Fairfax Financial Holdings 3.318% Ser G (FFH.PR.G)	30
Fairfax Financial Holdings 3.708% Ser I (FFH.PR.I)	30
Fairfax Financial Holdings 4.578% Ser C (FFH.PR.C)	30
Fairfax Financial Holdings 4.75% Ser M (FFH.PR.M)	30
Fairfax Financial Holdings 5.00% Ser K (FFH.PR.K)	30
Fairfax Financial Holdings Ser D (FFH.PR.D)	35
Fairfax Financial Holdings Ser F (FFH.PR.F)	35
Fairfax Financial Holdings Ser H (FFH.PR.H)	35
Fairfax Financial Holdings Ser J (FFH.PR.J)	35
Financial 15 Split 5.25% (FTN.PR.A)	38
First Asset CanBanc Split 6.50% (CBU.PR.A)	38
First National Financial Corp 4.65% Ser 1 (FN.PR.A)	30
Fortis Inc. 2.50% Ser H (FTS.PR.H)	29
Fortis Inc. 3.883% Ser G (FTS.PR.G)	29
Fortis Inc. 4.00% Ser K (FTS.PR.K)	29
Fortis Inc. 4.10% Ser M (FTS.PR.M)	29
Fortis Inc. Ser I (FTS.PR.I)	35
Fortis Inc. 4.75% Ser J (FTS.PR.J)	25
Fortis Inc. 4.90% Ser E (FTS.PR.E)	21
Fortis Inc. 4.90% Ser F (FTS.PR.F)	25
G. Weston Ltd. 4.75% SerV (WN.PR.E)	25
G. Weston Ltd. 5.2% SerIII (WN.PR.C)	25
G. Weston Ltd. 5.2% SerIV (WN.PR.D)	25
G. Weston Ltd. 5.8% SerI (WN.PR.A)	25
Global Champions Split Corp 4.00% (GCS.PR.A)	38
GMP Capital Inc. 5.50% Ser B (GMP.PR.B)	30
Great West 4.5% Ser I (GWO.PR.I)	25
Great West 4.80% Ser R (GWO.PR.R)	25
Great West 4.85% Ser H (GWO.PR.H)	25
Great West 5.15% Ser Q (GWO.PR.Q)	25
Great West 5.20% Ser G (GWO.PR.G)	25
Great West 5.25% Ser S (GWO.PR.S)	25
Great West 5.40% Ser P (GWO.PR.P)	25
Great West 5.65% Ser L (GWO.PR.L)	25
Great West 5.80% Ser M (GWO.PR.M)	25
Great West 5.90% Ser F (GWO.PR.F)	25
Great-West Ser O (GWO.PR.O)	35
Great-West 2.176% Ser N (GWO.PR.N)	29

HSBC 5.0% Ser D (HSB.PR.D)	23
HSBC 5.10% Ser C (HSB.PR.C)	23
Husky Energy Inc. 4.45% Ser 1 (HSE.PR.A)	29
Husky Energy Inc. 4.50% Ser 3 (HSE.PR.C)	29
Husky Energy Inc. 4.50% Ser 5 (HSE.PR.E)	29
Husky Energy Inc. 4.60% Ser 7 (HSE.PR.G)	29
IGM Financial Inc. 5.90% Ser B (IGM.PR.B)	25
Industrial Alliance 4.30% Ser G (IAG.PR.G)	29
Industrial Alliance 4.60% (IAG.PR.A)	25
Innergex Renewable Energy Inc 3.608% Ser A (INE.PR.A)	30
Innergex Renewable Energy Inc 5.75% (INE.PR.C)	25
Intact Financial Corp 4.20% Ser 1 (IFC.PR.A)	29
Intact Financial Corp 4.20% Ser 3 (IFC.PR.C)	29
Laurentian Bank 4.00% Ser 11 (LB.PR.F)	31
Laurentian Bank 4.30% Ser 13 (LB.PR.H)	31
Loblaw Companies Ltd 5.3% Ser B (L.PR.B)	25
Manulife Financial 3.80% Ser 13 (MFC.PR.K)	29
Manulife Financial 3.80% Ser 19 (MFC.PR.N)	29
Manulife Financial 3.90% Ser 15 (MFC.PR.L)	29
Manulife Financial 3.90% Ser 17 (MFC.PR.M)	29
Manulife Financial 4.00% Ser 11 (MFC.PR.J)	29
Manulife Financial 4.20% Ser 3 (MFC.PR.F)	29
Manulife Financial 4.40% Ser 5 (MFC.PR.G)	29
Manulife Financial 4.40% Ser 9 (MFC.PR.I)	29
Manulife Financial 4.60% Ser 7 (MFC.PR.H)	29
Manulife Financial 4.50% S. 3 (MFC.PR.C)	25
Manulife Financial 4.65% S. 2 (MFC.PR.B)	25
National Bank 3.80% Ser 28 (NA.PR.Q)	31
National Bank 3.90% Ser 32 (NA.PR.W)	31
National Bank 4.10% Ser 30 (NA.PR.S)	31
New Comm Split 6.00% Class I (YCM.PR.A)	37
New Comm Split 7.50% Class II (YCM.PR.B)	37
Newgrowth Corp. Ser 3 4.15% (NEW.PR.D)	38
North American Financial 15 5.25% (FFN.PR.A)	38
Northland Power Inc. Ser 2 (NPI.PR.B)	35
Northland Power Inc. 3.51% Ser 1 (NPI.PR.A)	30
Northland Power Inc. 5.00% Ser 3 (NPI.PR.C)	30
Partners Value Split 4.35% Class AA Ser 3 (PVS.PR.B)	37
Partners Value Split 4.5% Class AA Ser 6 (PVS.PR.D)	37
Partners Value Split 4.85% Class AA Ser 5 (PVS.PR.C)	37
Partners Value Split 4.95% Class AA Ser 1 (PVS.PR.A)	37
Partners Value Split 5.50% Class AA Ser 7 (PVS.PR.E)	37
Pembina Pipeline 4.25% Ser 1 (PPL.PR.A)	30

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Pembina Pipeline 4.50% Ser 7 (PPL.PR.G)	30
Pembina Pipeline 4.70% Ser 3 (PPL.PR.C)	30
Pembina Pipeline 4.75% Ser 9 (PPL.PR.I)	30
Pembina Pipeline 5.00% Ser 5 (PPL.PR.E)	30
Power Corp. 1986 Ser (POW.PR.F)	35
Power Corp. 5.00% SerD (POW.PR.D)	25
Power Corp. 5.35% SerB (POW.PR.B)	25
Power Corp. 5.60% SerA (POW.PR.A)	25
Power Corp. 5.60% SerG (POW.PR.G)	25
Power Corp. 5.80% SerC (POW.PR.C)	25
Power Finl. 2.306% Ser P (PWF.PR.P)	29
Power Finl. 4.20% Ser T (PWF.PR.T)	29
Power Finl. 4.80% Ser S (PWF.PR.S)	25
Power Finl. 4.95% Ser K (PWF.PR.K)	25
Power Finl. 5.10% Ser L (PWF.PR.L)	25
Power Finl. 5.25% Ser E (PWF.PR.F)	25
Power Finl. 5.50% Ser D (PWF.PR.E)	25
Power Finl. 5.50% Ser R (PWF.PR.R)	25
Power Finl. 5.75% Ser H (PWF.PR.H)	25
Power Finl. 5.80% Ser O (PWF.PR.O)	25
Power Finl. 5.90% Ser F (PWF.PR.G)	25
Power Finl. 6.00% Ser I (PWF.PR.I)	25
Power Finl. Ser A (PWF.PR.A)	35
Premium Income Corp 5.75% (PIC.PR.A)	38
Prime Dividend (floor rate 5.00%) (PDV.PR.A)	38
R Split III Corp. 4.25% (RBS.PR.B)	37
Riocan REIT 4.70% Ser C (ROC) (REI.PR.C)	30
Riocan REIT 5.25% Ser A (ROC) (REI.PR.A)	30
Rona Inc. 5.25% Ser 6 Class A (RON.PR.A)	30
Royal Bank 3.52% Ser AJ (RY.PR.I)	31
Royal Bank 3.60% Ser BD (RY.PR.J)	31
Royal Bank 3.60% Ser BF (RY.PR.M)	31
Royal Bank 3.90% Ser BB (RY.PR.H)	31
Royal Bank 4.00% Ser AZ (RY.PR.Z)	31
Royal Bank 4.26% Ser AL (RY.PR.L)	31
Royal Bank 4.45% Ser AA (RY.PR.A)	23
Royal Bank 4.45% Ser AF (RY.PR.F)	23
Royal Bank 4.50% Ser AD (RY.PR.D)	23
Royal Bank 4.50% Ser AE (RY.PR.E)	23
Royal Bank 4.50% Ser AG (RY.PR.G)	23
Royal Bank 4.60% Ser AC (RY.PR.C)	23
Royal Bank 4.70% Ser AB (RY.PR.B)	23
Royal Bank 4.90% Ser BH (RY.PR.N)	24

Royal Bank 4.90% Ser BI (RY.PR.O)	24
Royal Bank 4.90% Ser W (RY.PR.W)	24
Royal Bank 5.25% Ser BJ (RY.PR.P)	24
Royal Bank 5.50% Ser BK (RY.PR.Q)	31
Royal Bank of Canada Ser AK (RY.PR.K)	35
S Split Corp. 5.25% (SBN.PR.A)	37
Shaw Comm Inc. 4.50% Ser A (SJR.PR.A)	30
Sun Life Financial Inc. 4.45% Ser 3 (SLF.PR.C)	25
Sun Life Financial Inc. 4.45% Ser 4 (SLF.PR.D)	25
Sun Life Financial Inc. 4.50% Ser 5 (SLF.PR.E)	25
Sun Life Financial Inc. 4.75% Ser 1 (SLF.PR.A)	25
Sun Life Financial Inc. 4.80% Ser 2 (SLF.PR.B)	25
Sun Life Financial Inc. Ser 9QR (SLF.PR.J)	35
Sun Life Financial Inc. 2.275% Ser 8R (SLF.PR.G)	29
Sun Life Financial Inc. 3.90% Ser 10R (SLF.PR.H)	29
Sun Life Financial Inc. 4.25% Ser 12R (SLF.PR.I)	29
TD Bank 3.371% Ser S (TD.PR.S)	31
TD Bank 3.5595% Ser Y (TD.PR.Y)	31
TD Bank 3.60% Ser 7 (TD.PF.D)	31
TD Bank 3.70% Ser 9 (TD.PF.E)	31
TD Bank 3.75% Ser 5 (TD.PF.C)	31
TD Bank 3.80% Ser 3 (TD.PF.B)	31
TD Bank 3.90% Ser 1 (TD.PF.A)	31
TD Bank 4.90% Ser 11 (TD.PF.F)	24
TD Bank Ser Z (TD.PR.Z)	35
TDb Split Inc. 5.25% (XTD.PR.A)	37
Thomson Reuters Ser II (TRI.PR.B)	35
Top 10 Split Trust 6.25% (TXT.PR.A)	37
TransAlta 4.60% Corp Ser A (TA.PR.D)	30
TransAlta 4.60% Corp Ser C (TA.PR.F)	30
TransAlta 5.00% Corp Ser E (TA.PR.H)	30
TransAlta 5.30% Corp Ser G (TA.PR.J)	30
TransCanada Corp 2.152% Ser 3 (TRP.PR.B)	30
TransCanada Corp 2.263% Ser 5 (TRP.PR.C)	30
TransCanada Corp 3.266% Ser 1 (TRP.PR.A)	30
TransCanada Corp 3.80% Ser 11 (TRP.PR.G)	30
TransCanada Corp 4.00% Ser 7 (TRP.PR.D)	30
TransCanada Corp 4.25% Ser 9 (TRP.PR.E)	30
TransCanada Corp Ser 2 (TRP.PR.F)	35
TransCanada Corp Ser 4 (TRP.PR.H)	35
US Financial 15 Split 2012 Pref 5.25% (FTU.PR.B)	38
Utility Split Trust 5.25% Class B (UST.PR.B)	37
Valener Inc. 4.35% Ser A (VNR.PR.A)	30

Guide to Preferred Shares

Veresen Inc 4.40% Ser A (VSN.PR.A)	30
Veresen Inc 5.00% Ser C (VSN.PR.C)	30
Veresen Inc 5.00% Ser E (VSN.PR.E)	30
Westcoast Energy 5.50% Ser 7 (W.PR.H)	25
Westcoast Energy 5.60% Ser 8 (W.PR.J)	25
Westcoast Energy 5.25% Ser 10 (W.PR.K)	31
World Financial Split 5.25% (WFS.PR.A)	38

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Bank of Nova Scotia, Intact Financial Corporation, Element Financial Corporation, Power Corporation of Canada,

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

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