

## BROMPTON SPLIT CORP. PREFERRED SHARES PRIMER

Brompton's Split Share Corporations are unique investment funds that typically invest in a basket of blue-chip dividend paying stocks, and offer two distinct classes of shares: 1) Class A or "capital" shares, and 2) preferred shares ("Brompton Preferred Shares"). This primer focuses on **Brompton Preferred Shares**. For more information on Split Share Corporations generally, click [here](#) for Brompton's Split Share Funds Primer.

Brompton Preferred Shares	Pref Ticker Symbol (TSX)	Years to Reset/ Maturity	Current Yield	Downside Protection
<b>Brompton Split Banc Corp.</b>	SBC.PR.A	3.1	4.8%	56%
<b>Life &amp; Banc Split Corp.</b>	LBS.PR.A	4.0	5.3%	44%
<b>Brompton Lifeco Split Corp.</b>	LCS.PR.A	4.5	6.1%	37%
<b>Dividend Growth Split Corp.</b>	DGS.PR.A	5.0	5.4%	34%
<b>Global Dividend Growth Split Corp.</b>	GDV.PR.A	1.7	4.9%	53%
<b>Brompton Oil Split Corp.</b>	OSP.PR.A	0.4	5.4%	0%

All data as of October 31, 2019. Sources: Thomson Reuters, Brompton Funds

### Brompton Preferred Shares – Main Features:

- Up to 5-year terms, subject to extension
- Quarterly cumulative preferred dividends (generally eligible Canadian dividends)
- Dividend level is subject to full reset, at then-current market rates, at beginning of each term
- Investor has the option to hold for a new term, or to redeem, at the end of each successive term for cash redemption value
- Non-callable by issuer during the term – investors are not subject to reinvestment risk
- Highest priority claim on fund assets, ahead of Class A shareholders, in the event of termination

### Preferred Share Comparison

**Traditional corporate preferred shares** offer fixed dividend rates and a perpetual term, features often associated with high sensitivity to market levels of interest rates.

**Corporate fixed-rate-reset preferred shares** were introduced to the Canadian market in 2008 to attempt to address interest rate risk. This type of preferred share also has a perpetual term, but typically offers a dividend reset every five years. The new rate is generally based on the then-current 5 year Government of Canada rate, plus a fixed spread. In theory this should protect holders against sudden increases in market interest rates, however, investors should be aware that declining interest rates can have a meaningful negative impact on trading prices and returns for fixed-rate-reset preferred shares.

**Brompton Preferred Share** dividends are reset by the Manager at the end of each term at competitive all-in market rates based on dividend yields observed in its comparable preferred share market at that time of reset. This simple process effectively resets BOTH the base rate AND the spread for the preferred shares offered by our funds, mitigating spread risk for investors. Brompton Preferred Shares are also redeemable at the investor's option at the end of term, a unique feature in the Canadian preferred share market which provides strong trading price support. Here's more detail on the valuable features offered by Brompton Preferred Shares:

## 1. Brompton Preferred Shares protect investors from rate-reset-spread risk:

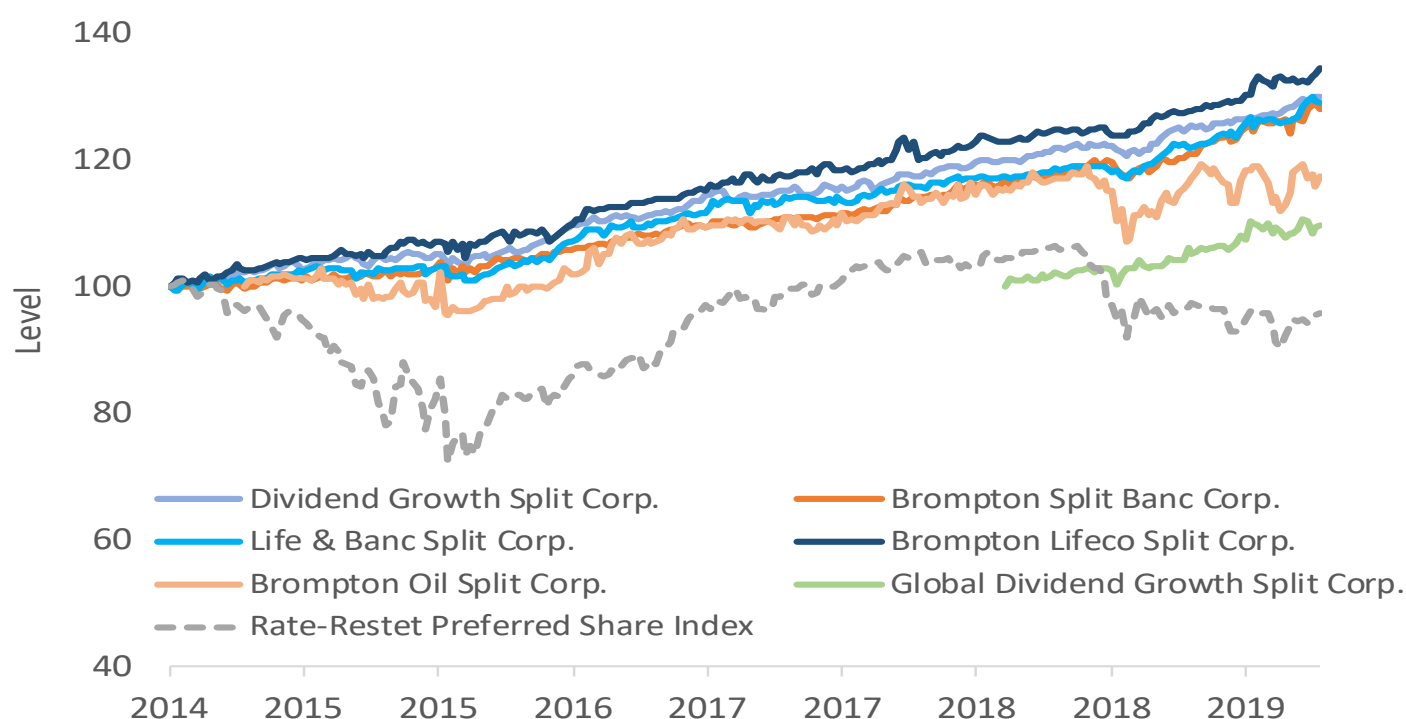
Corporate rate-reset preferred share dividend yields are reset periodically as the sum of: 1) the then-current base interest rate (usually the Gov't of Canada 5-yr bond yield); and 2) a "spread" to account for the issuer's credit risk. As of October 31, 2019, 79% of the S&P/TSX Preferred Share Index was comprised of corporate fixed-rate-reset preferred shares.

The S&P/TSX Preferred Share Index has experienced two drawdowns (i.e. declines) in excess of 10% in recent years (2015 & 2018). In our view, recent investment returns for Canadian Preferreds are an unintended consequence of the fixed-rate reset approach. Falling GOC 5-yr interest rates in 2014 and again in 2018 caused investors to expect that upcoming dividend resets would result in an unacceptably low dividend rate for the next 5 year term, which triggered a sell-off of fixed-rate-reset preferred shares. Brompton Preferred Shares, which are reset at all-in market rates and so are not affected by changing market spread requirements, provided shareholders with a stable investment experience over the same period

## 2. Brompton Preferred Shares are redeemable at the shareholder's option:

Typically, rate-reset preferred shares are only redeemable at the issuer's option; often this redemption is ideal for the issuer, but not for investors. For example, it is in the best interest of the issuer to redeem a preferred share if its spread is higher than the market demands. Conversely, the issuer will not redeem if its spread is lower than the market demands. Brompton Preferred Shares are redeemable at the shareholder's option at the end-of-term, providing support for the market price, and giving flexibility to shareholders.

**Brompton Preferred Shares vs  
Corporate Rate-Reset Preferred Shares – Total Return**



Source: Thomson Reuters Datastream, for the period from October 31, 2014 to October 31, 2019. Reflects total return based on market price. Rate Reset Preferred Share Index is represented by the S&P/TSX Preferred Share Index, an index of Canadian corporate preferred shares. As at October 31, 2019, 79% of the market value of the Index was comprised of fixed rate-reset preferred shares. (Source: BMO Capital Markets).

Annual Compound Returns <sup>1</sup>	Inception	1-YR	3-YR	5-YR	10-YR	Since Inception
SBC.PR.A	Nov/05	5.1%	4.9%	4.8%	4.9%	5.1%
LBS.PR.A	Oct/06	5.5%	5.1%	5.0%	5.1%	5.2%
LCS.PR.A	Apr/07	6.2%	6.0%	6.0%	5.7%	5.6%
DGS.PR.A	Dec/07	5.4%	5.4%	5.4%	5.4%	5.4%
OSP.PR.A	Feb/15	1.2%	3.8%	-	-	4.3%
GDV.PR.A	Jun/18	5.1%	-	-	-	5.1%
Preferred Share Index	Jun/07	(7.7%)	2.4%	(0.9%)	2.2%	-

<sup>(1)</sup> Source: Brompton, Thomson Reuters. Returns are for the periods ended October 31, 2019. The table shows each Fund's compound return on a Preferred share for each period indicated, compared with the S&P/TSX Preferred Share Index ("Preferred Share Index"). The Preferred Share Index tracks the performance, on a market weight basis, of a broad index of preferred shares trading on the Toronto Stock Exchange that meet the criteria relating to size, liquidity and issuer rating. It is therefore not expected the performance of the Preferred shares will mirror that of the Preferred Share Index which has a more diversified portfolio. The Preferred Share Index is calculated without the deduction of management fees, fund expenses and trading commissions, whereas the performance of the Fund is calculated after deducting such fees and expenses.

You will usually pay brokerage fees to your dealer if you purchase or sell shares of the investment fund on the Toronto Stock Exchange or other alternative Canadian trading system (an "exchange"). If the shares are purchased or sold on an exchange, investors may pay more than the current net asset value when buying shares of the investment fund and may receive less than the current net asset value when selling them.

There are ongoing fees and expenses associated with owning shares of an investment fund. An investment fund must prepare disclosure documents that contain key information about the Funds. You can find more detailed information about the Funds in the public filings available at [www.sedar.com](http://www.sedar.com). The indicated rates of return are the historical annual compounded total returns including changes in share value and reinvestment of all distributions and do not take into account certain fees such as redemption costs or income taxes payable by any securityholder that would have reduced returns. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.

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