

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	Yield to Maturity	Downside Protection
Brompton Split Banc Corp.	SBC.PR.A	0.3	3.2%	56%
Life & Banc Split Corp.	LBS.PR.A	1.3	3.4%	48%
Brompton Lifeco Split Corp.	LCS.PR.A	1.8	4.7%	40%
Dividend Growth Split Corp.	DGS.PR.A	2.3	5.0%	41%
Brompton Oil Split Corp.	OSP.PR.A	2.7	5.6%	31%

All data as of July 31, 2017. Sources: Thomson Reuters, Brompton Funds

Brompton Preferred Shares – Main Features:

- 5-year term, subject to extension for periods of up to five years
- 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. Investors should be aware that market levels for reset spreads are also subject to fluctuations. When market levels for reset spreads decrease, this could have a positive impact on trading values, however, when the market demands higher reset spreads, as we have seen at times in the past, this can have a meaningful negative impact on trading values and returns for fixed-rate-reset preferred shares.

Brompton Preferred Share dividends are reset by the Manager every 5 years 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. Market demands for increasingly higher reset spreads produced negative returns for many corporate rate-reset preferred shares in the period from mid-2014 leading up to early 2016; for certain issues, trading prices declined more than 50%.

As an example, bank-issued fixed-rate-reset preferred shares whose reset spreads were fixed in early 2014 (a time of particularly tight reset spreads) were negatively impacted in a market with rising reset-spread expectations. 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.

Widening Market Spreads Negatively Impact Corporate Rate-Reset Preferred Share Trading Prices

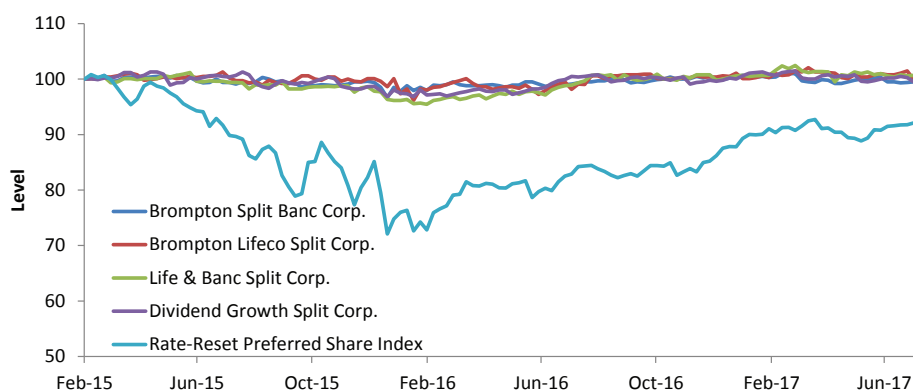
	Jun 30, 2014	Feb 29, 2016	Change
New-Issue Reset Spread Level:	~2.25%	~4.90%	+2.65%
Basket of Bank Rate-Reset Prefs ¹ : TSX Price, % Par	101%	67%	-34%
Brompton Split Banc Pref: TSX Price, % Par	102%	100%	-2%

Note 1: Basket of Bank Rate Reset Prefs includes an equal weight of the following fixed-rate-reset preferred share issued in early 2014: RY.PR.Z; NA.PR.S; BMO.PR.S; TD.PF.A; CM.PR.O; BNS.PR.Y.
Source: Thomson Reuters, Brompton, RBC Capital Markets.

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 February 27, 2015 to July 31, 2017. Rate Reset Preferred Share Index is represented by the S&P/TSX Preferred Share Index, an index of Canadian corporate preferred shares. As at July 31, 2017, 78% of the market value of the Index was comprised of fixed rate-reset preferred shares (Source: BMO Capital Markets as at July 31, 2017).

	Annual Compound Returns					
	Inception	1 yr	3 yr	5 yr	10 yr	S.I.
SBC.PR.A	Nov/05	4.7%	4.1%	4.0%	4.5%	4.7%
LBS.PR.A	Oct/06	6.7%	4.7%	5.1%	5.0%	4.8%
LCS.PR.A	Apr/07	7.6%	5.6%	8.5%		5.3%
DGS.PR.A	Dec/07	4.3%	5.2%	5.1%		5.6%
OSP.PR.A	Feb/15	7.7%				3.9%
Index	Jun/07	16.9%	0.3%	1.2%		2.6%

Source: Thomson Reuters Datastream, S&P Dow Jones Indices, Brompton, as at July 31, 2017. Based on market price

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 fund. You can find more detailed information about the fund in the public filings available at www.sedar.com. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.

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