BROMPTON SPLIT SHARE PRIMER

What are Split Share Funds?

Split share funds ("Splits") are unique investment corporations that offer two distinct classes of shares and typically invest in an underlying portfolio of dividend paying companies.

The two distinct classes of shares are classified as 1) Class A shares and 2) Preferred shares. Both classes of shares trade separately on the TSX.

Typically an investor buys a stock to receive dividends and to take advantage of any gains on a stock price.
Split share funds split, or effectively reallocate, these two benefits between the two separate classes of shares. Preferred shares receive fixed, cumulative quarterly payments. Class A shares capture the movement of the underlying stocks, but in a more magnified way than if an investor owned the underlying portfolio of securities directly. This magnification of return is commonly known as "leverage".

As an example, if the underlying stocks go up 5%, the Class A share's value increases more than 5%. That is because the Class A shares receive all growth in the fund, even on the Preferred share portion. The reverse is also true.

Unlike a traditional split share fund, Brompton designs Splits where the Class A shares receive a steady monthly distribution when the net asset value is above a specified threshold (as well as participating in a levered way on the return of the portfolio securities).[1] Class A share distributions are funded by capital appreciation, additional income earned from a covered call writing program and any excess dividend income earned in the underlying portfolio that is over and above what is needed to fund the Preferred share dividends.

Which Share is Right for you?

Preferred shares are more conservative and have a steady income stream due to their fixed, cumulative quarterly payments. Payments are usually in the form of eligible Canadian dividends which are taxed at a lower rate than other types of income. Preferred shares have a priority claim ahead of the Class A shares on the fund's assets in the event of termination. However, the net asset value of Preferred shares do not benefit from growth in the underlying stocks. The market price of a Preferred share has historically tended to be fairly steady and investors have a monthly and annual retraction feature. All Brompton Preferred shares are also non-callable at a price other than the net asset value so you will not be forced to give up your shares for less than their par value.

A knowledgeable investor, not adverse to the ups and downs of the market, who might be bullish on the underlying portfolio, may be interested in Class A shares. Buying a Class A share of a Split rather than buying the underlying stocks yourself can result in magnified gains if the value of the underlying portfolio increases or magnified losses if the value of the underlying portfolio decreases, due in each case to leverage. The monthly payments to Class A shares are a target (not fixed).[1] They can be missed if the portfolio declines but on the other hand, if the portfolio has realized gains, the Class A shares may be entitled to special distributions on top of the monthly payments. In the event of termination the Class A shares receive the balance of the portfolio (net asset value) after the Preferred shares receive their original issue price plus any accrued and unpaid Preferred dividends.

How are the Monthly and Quarterly Distributions Funded?

The dividends received on the stocks held in a Split Share Fund's portfolio are used to fund the fixed, cumulative quarterly payments made to the Preferred shares.

Capital appreciation plus any excess dividend income and any option premium received from covered call writing are used to fund the targeted monthly payments to the Class A shares.

The objective is to pay mostly Canadian eligible dividend income to the Preferred share and a combination of return of capital, dividends and capital gains to the Class A share.

In either case, the distribution payments are very tax efficient compared to many other income-oriented investments.

What Should be Considered Before Purchasing?

Before purchasing a Class A or Preferred share of a Brompton Split you should consider which sector you are interested in.

Underlying portfolios typically hold large capitalization, dividend paying invest in solid blue chip companies but the holdings vary by Fund. Brompton has Split share funds that focus on sectors groups such as Canadian banks, Canadian life insurance companies, and Canadian dividend growth companies.

Buying a Class A or Preferred share of a Brompton Split is an efficient way to invest in a sector or group of stocks you like. All shares trade on the TSX and can be purchased in the same manner as any other stock trading on the exchange.

You may also want to the consider issue size, the market yield, the Preferred share credit rating and whether the shares are trading at a premium or discount to the net asset value before deciding which Split is right for you.

Brompton Split Share Funds

Fund	TSX Ticker	Sector
Brompton Lifeco Split Corp.	LCS / LCS.PR.A	Canada's 4 largest life insurance companies
Brompton Oil Split Corp.	OSP / OSP.PR.A	15 large-cap North American oil and gas issuers
Brompton Split Banc Corp.	SBC/ SBC.PR.A	Big 6 Canadian banks
Dividend Growth Split Corp.	DGS/ DGS.PR.A	20 bluechip Canadian equities
Brompton Life & Banc Split Corp.	LBS/LBS.PR.A	Canada's 4 largest life insurance companies and the Big 6 banks
Global Dividend Growth Split Corp.	GDV/GDV.PR.A	Large-cap global dividend growth companies

(1) No cash distributions will be paid on the Class A shares if, after the payment of the distribution by the Company, the NAV per Unit (consisting of 1 Class A share and 1 Preferred share) would be less than $15.00.

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 alternative Canadian trading platform (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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BROMPTON FUNDS

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INTEGRITY
PERFORMANCE
THE FOUNDATION FOR EXCELLENCE

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