



**Chris Cullen**

SVP and head of ETFs  
BROMPTON FUNDS

**Years in the industry**  
19

**Fast fact**

Since its inception in 2018, the Brompton Flaherty & Crumrine Investment Grade Preferred ETF (BPRF) has had a return of 5.9%

■ **Q&A**

# The importance of alternative income

● **In light of low interest rates, how important are other sources of income in portfolios?**

The pandemic response from North American central banks was to cut overnight funding rates to stated lower bounds, 0% to 0.25%, and other government bond maturities have followed. Investors may start to stretch for yield by extending into traditional corporate bonds, which, unlike US or Canada government bonds, carry some level of credit risk. Safer corporate credits in North America – investment-grade bonds – are yielding approximately 2%, which is not much of an improvement over similar-term government bonds. Riskier high-yield bonds, excluding financially distressed companies, are now yielding a little less than 5%, which seems reasonable, except when you consider that we are in the middle of the biggest high-yield bond default period since the global financial crisis.

So yes, it's very important for income investors to consider other sources of income, rather than automatically stretching for yield by taking on higher levels of credit or interest rate risk. Investors can find better risk/reward options in income alternatives.

● **Are there any areas that stand out to you?**

We are suggesting US preferreds – they've traded much more sensibly and stably than their Canadian counterparts, and the US market is 10 times the size of Canada's and offers good liquidity, high credit quality and yield. Almost all US preferred issuers are rated investment-grade, meaning the probability of default is low, comparable to the US investment-grade corporate bond market. Yet the average yield is around 5% for

high-quality US preferreds, about the same level as non-distressed US high-yield bonds. High quality and high income can still be found if you look outside of traditional bonds.

● **What risks are there with these investments?**

US preferreds, and preferreds in general, are subordinated securities of high-quality issuers. Subordination risk means that in the event of default, US preferred holders have a lesser claim on corporate assets than do bond holders. The upside for US preferreds is that the issuers of preferreds are typically high-quality, investment-grade-rated companies.

Securities can carry credit risk, equity risk, liquidity risk and subordination risk. All of these risks, theoretically, should attract commensurately higher returns than 'riskless' government bonds. However, in the current low-yield environment, the reward for certain of these risks from mainstream bonds has been compressed to a level that we believe does not compensate investors properly. That's not the case for US preferreds – we believe investors are still being fairly compensated for subordination risk, and they compare very well to other classes of fixed income investments.

● **What are the benefits of alternative income?**

Alternative income investments provide investors with many benefits, including diversification. When assembling a portfolio, it's prudent to consider the correlation between holdings. US preferreds have relatively low correlation with Canadian preferreds, Canadian and US equities, and bonds.



## Therapeutic treatment provider joins DealSquare

Doctor's Ketamine and

Wellness, a Calgary-based company that promises a revolutionary treatment for pain and mental health issues, has launched a \$7 million private placement offering on the DealSquare platform. The company is aiming to become "the premier global provider of outpatient ketamine and vitamin hydration infusions"; CEO Michael Hale said he hopes the DealSquare offering will provide Doctor's Ketamine and Wellness the exposure it needs to scale up operations and expand its services.



## Waratah launches second liquid alt mutual fund

Waratah Capital Advisors has

unveiled its second liquid alternative mutual fund, the Waratah Alternative ESG Fund. The new offering aims to provide high-net-worth investors with direct access to a diversified portfolio of long and short equity positions with integrated ESG factors. The fund integrates ESG considerations into its fundamental investment analysis to reduce inadvertent and direct ESG-related risks and to identify new ESG-related investment opportunities such as water technology, battery materials and plastics innovation.



## Ninepoint Partners announces new limited partnership

Ninepoint Partners has

filed a preliminary prospectus for the Ninepoint 2020 Short Duration Flow-Through Limited Partnership, which aims to achieve capital appreciation and significant tax benefits by investing in a diversified portfolio of flow-through shares and other securities of resource issuers. Units are being offered at \$25 per unit with a minimum subscription of 100 units. The partnership intends to provide liquidity to partners through a rollover to the Ninepoint Resource Class in early 2022.