BROMPTON FUNDS

Gordon Pape's Updates: BPRF Recommendation

Excerpted from Gordon Pape's Income Investor newsletter, September 30, 2021. The full article includes an update on several income-focused ETFs, and is available to subscribers of Gordon Pape's newsletter, The Income Investor. Excerpts also published in the Globe & Mail, "Looking for cash flow? Income investors should consider these 3 ETFs", October 6, 2021.

Most younger investors want to see their money grow. Cash flow is not a concern; what they want is to find the next Shopify and watch as a thousand dollars turns into a million. It can happen, but rarely.

Older people, especially those who are retired, are more interested in cash flow. They want securities that produce steady income with the least possible risk.

Brompton Flaherty & Crumrine Investment Grade Preferred ETF (BPRF, BPRF.U)

Current price: $26.95, US$26.86

Annual payout: $1.248

Yield: 4.6 per cent

Risk: Moderate

Comments: This fund invests in U.S. preferred shares, an area in which most Canadian investors have little knowledge. It is overseen by Flaherty & Crumrine, a highly respected specialty U.S. preferred share manager.

The U.S. preferred market is much larger, more liquid and less volatile than the Canadian market, so it's a good choice for investors who want to diversify.

The goals of this ETF are to provide reliable monthly cash distributions (currently 10.4 cents a unit) and a stable net asset value. The managers actively invest in a portfolio consisting primarily of U.S. dollar-denominated corporate preferred securities, trust preferred securities and other corporate debt. At least 75 per cent of the portfolio consists of securities that are rated investment grade at the time of purchase.

There are two types of units. BPRF is hedged back into Canadian currency, while BPRF.U is denominated in U.S. dollars.

Almost 62 per cent of the assets are invested in financial industry preferreds (banks and insurance companies). Utilities account for 15.9 per cent and energy for 9.9 per cent.

The fund was launched in October, 2018. The Canadian dollar units have posted a 7.9-per-cent average annual compound rate of return since inception (all performance numbers to Aug. 31) and are up 4.1 per cent year to date in 2021. The U.S. dollar units are faring somewhat better, with an average annual return since inception of 8.7 per cent and a year-to-date gain of 4.4 per cent.

The yield is very attractive at 4.6 per cent.

This continues to be an undiscovered gem, with only $74-million in assets under management. Trading volume is very light so it's best to place a limit order.

The management fee is high for an ETF, at 0.75 per cent, but the results make it worthwhile.

This fund is best suited for investors seeking regular income who want to diversify their portfolio with preferred shares denominated in U.S. dollars.