

ETF, Index and Program Trading

Weekly ETF Money Flows

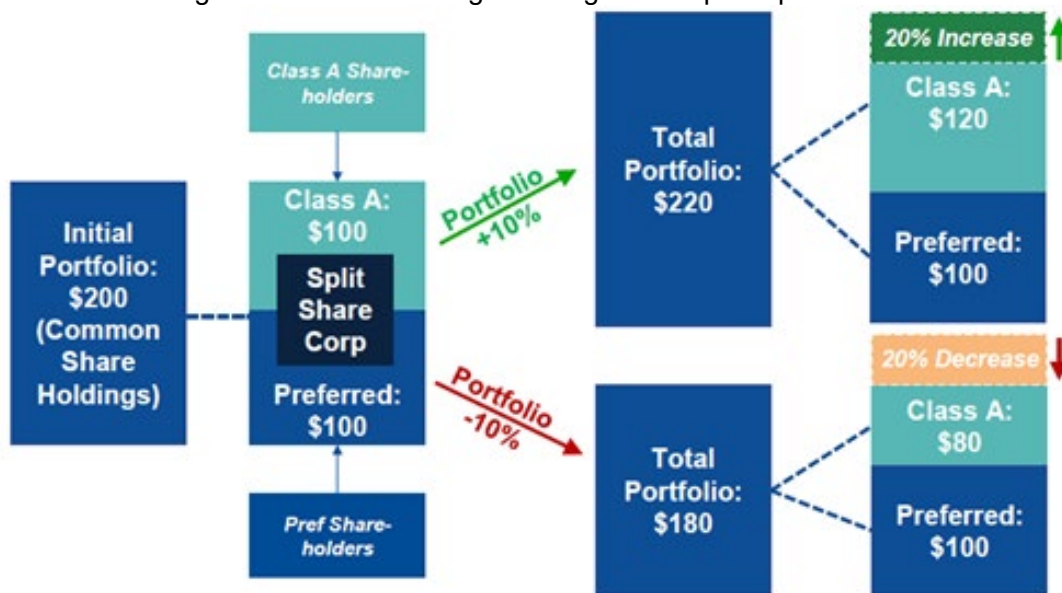
Week ending June 16, 2023

Excerpted from NBCFM Weekly ETF Money Flows report:

NEW LISTINGS: Brompton launched the first ETF holding investment fund (split corp) preferreds Last Thursday Brompton broke ground with the launch of the first ETF holding a basket of preferred share series' of Canadian split corporations: the [Brompton Split Corp. Preferred Share ETF \(SPLT\)](#). Until now, preferred share ETFs, such as iShares CPD and BMO ZPR, have been focused on the *corporate* preferred market as opposed to the *investment fund* preferred market. SPLT offers actively managed, diversified exposure to this relatively small but fast-growing pocket of the industry. Distributions are tax-advantaged with an initial distribution rate of 6.25%.

The Coles Notes on Split Corporations

Structure: Split Corporations are investment funds that are equally "split" into two share classes: preferred shares and class A shares. The funds typically hold high dividend paying equities, largely financials, and some also write options to generate additional income. The dividends/income are paid on the preferred shares in cumulative quarterly payments while all capital gains are applied to class A. As such, the preferred shares are protected from portfolio losses (to a point) with a predefined distribution while the class A shares offer higher risk-reward through leveraged NAV participation.



Benefits of Split Corporation Preferreds: There are numerous characteristics that differentiate split preferreds from traditional corporate preferreds. Some of these include, but are not limited to, redemption/retraction rights resting with the shareholder (not issuer), less interest rate sensitivity, historically less volatility since capital gains are tied to the class A shares.

Landscape: Zooming out, the market for Split Corp Preferreds has been growing at a solid clip with assets up 71% in the past 5 years while the *corporate* preferred market has waned, partly a result of bank issuers opting for other forms of hybrid financing such as LRCNs. The total AUM in the split preferred market stands at >\$5bln across approximately thirty funds, and there are still only handful of issuer including Quadravest, Brompton, Middlefield, Brookfield, Mulvihill and Harvest. The table below lists the top 15 issues listed on Canadian exchanges. (Note: this list does not represent SPLT's holdings).

Name	Ticker	Issue Date	Maturity	Years to Maturity	Pref. Mkt. Cap (MM)	Yield on Issue Price	Current Yield	Yield to Maturity	Downside Protection	Rating
Dividend 15 Split Corp.	DFN.PR.A	Mar 16, 2004	Dec 01, 2024	1.5	\$1,034	5.50%	5.83%	9.66%	32.7%	Pfd-3
North American Financial 15 Split Corp.	FFN.PR.A	Oct 15, 2004	Dec 01, 2024	1.5	\$504	7.75%	8.15%	11.38%	25.3%	Pfd-4H
Dividend Growth Split Corp.	DGS.PR.A	Dec 03, 2007	Sep 27, 2024	1.3	\$444	5.50%	5.80%	9.70%	30.8%	Pfd-3
Financial 15 Split Corp.	FTN.PR.A	Nov 14, 2003	Dec 01, 2025	2.5	\$355	7.50%	7.86%	9.60%	40.2%	Pfd-3
Life & Banc Split Corp.	LBS.PR.A	Oct 17, 2006	Oct 30, 2023	0.4	\$349	5.45%	5.50%	7.76%	41.1%	Pfd-3
Dividend 15 Split Corp. II	DF.PR.A	Nov 16, 2006	Dec 01, 2024	1.5	\$295	5.75%	6.06%	9.47%	27.9%	Pfd-3L
Canadian Banc Corp.	BK.PR.A	Jul 15, 2005	Dec 01, 2023	0.4	\$225	Prime + 1.50%	7.96%	6.94%	48.1%	Pfd-3
Premium Income Corporation	PI.C.PR.A	Oct 30, 1996	Nov 01, 2024	1.4	\$185	5.75%	6.48%	14.85%	13.9%	NR
Brompton Split Banc Corp.	SBC.PR.A	Nov 16, 2005	Nov 29, 2027	4.4	\$177	6.25%	6.55%	7.47%	43.4%	Pfd-3H
E Split Corp.	ENS.PR.A	Jun 29, 2018	Jun 30, 2028	5.0	\$170	7.00%	7.04%	7.12%	56.1%	Pfd-3H
Partners Value Split Corp. Series 12	PVS.PR.J	Apr 12, 2021	Feb 29, 2028	4.7	\$153	4.40%	4.95%	7.21%	81.8%	Pfd-2L
Partners Value Split Corp. Series 8	PVS.PR.F	Sep 18, 2017	Sep 30, 2024	1.3	\$145	4.80%	4.95%	7.21%	81.8%	Pfd-2L
Global Dividend Growth Split Corp.	GDV.PR.A	Jun 15, 2018	Jun 30, 2026	3.0	\$145	5.00%	5.29%	7.01%	44.5%	Pfd-3H
Partners Value Split Corp. Series 11	PVS.PR.I	Oct 06, 2020	Oct 31, 2025	2.4	\$142	4.75%	5.03%	7.32%	81.8%	Pfd-2L
Partners Value Split Corp. Series 9	PVS.PR.G	Nov 26, 2018	Feb 28, 2026	2.7	\$141	4.90%	5.22%	7.38%	81.8%	Pfd-2L

Source: NBF, Bloomberg. As at June 6, 2023. Based on most recently publicly disclosed NAV and shares outstanding.

One argument we've heard is the relative illiquidity of the split preferred market. Important to note, however, that innovative mechanisms have been implemented to enhance liquidity; in particular, most split corporations take advantage of at-the-market (ATM) issuance programs, in which brokers offer newly issued shares in the secondary market at prevailing market prices. Please reach out for more information on this.

Disclaimer: http://www.nbcn.ca/disclosure_english.jhtml

* Weekly flows and AUM calculations are not adjusted for cross-ETF (ETF of ETF) holdings while Monthly calculations are adjusted.

Sources: National Bank of Canada, Bloomberg, Brompton Funds Limited, Hamilton Capital Partners

NBF ETF, Index, & Portfolio Trading

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