

## **SPLIT PREFERRED OFFER STRONG CASH FLOW**

*By Rudy Luukko, Contributing Editor*

Preferred shares can be an excellent source of steady income. The problem is most investors don't understand them and there is little helpful information available. Today let's look at split preferred shares and conventional preferreds. Both generate tax-advantaged dividend income. But there are major differences between them that result in very different risk/return characteristics.

Split preferreds are a share class of split-share corporations, which are created by investment-fund managers. The largest issuer is Quadravest Capital Management Inc., followed by Brompton Funds Ltd. Other issuers include Mulvihill Capital Management Inc. and Middlefield Ltd., along with one apiece for Harvest Portfolios Group Inc., Ninepoint Partners LP, Partners Value Split Corp., and Purpose Investments Inc.

These management firms buy common shares of well-established corporations, most commonly those of major banks or life insurance companies, along with various other industries. The managers "split" the underlying shares into two distinct classes.

Currently there are 26 split-share corporations that are publicly traded and that offer both split-preferred and Class A shares. The Partners Value Split Corporation offers only split-preferred shares, based on stock in Brookfield Corporation and Brookfield Asset Management.

The split-preferred class of shares pays dividends, and the Class A shares provide exposure to capital growth. Class A shares commonly make distributions that consist of return of capital and capital gains. Though split preferreds can trade at premiums or discounts, they are redeemable at par value at specified dates. Normally, this redemption feature applies at the same time as the usual five-year termination date.

At that time, the board of directors can decide to extend the termination date, usually for another five years, and set a new dividend payout rate. To encourage investors to stay aboard, the revised rate will be based on market rates prevailing for other split preferreds and for the broader fixed-income market.

This differs from the corporate preferred market, which is dominated by rate-reset issues whose dividends are normally tied to five-year Government of Canada bond yields. If bond yields fall, so will the payouts to preferred

shareholders, and therefore the value of the preferred shares will decline. Unlike split preferreds, conventional preferreds don't provide the option to redeem at par.

Currently there are an estimated \$10.4 billion in assets of split preferreds and \$6.7 billion in Class A split shares, according to calculations by Brompton Funds. This has provided sufficient assets and liquidity for the three Canadian-listed ETFs that hold portfolios of split preferreds, and one ETF that invests in Class A shares of split corporations.

None of the split-preferred ETFs is old enough to have a three-year track record. The closest is the \$617 million Brompton Split Corp. Preferred Share ETF (TSX: SPLT), launched in June 2023. It's by far the largest and most actively traded in this small group. Launched a year later was the \$44 million Quadravest Preferred Split Share ETF (TSX: PREF). The newest, launched in December 2024, is Mulvihill Enhanced Split Preferred Share ETF (TSX: SPFD). Unlike its rivals, the Mulvihill ETF employs leverage of up to 50%.

Because of their different risk/return profiles, none of the split-preferred ETFs will be found in the preferred shares fixed-income category. The Brompton and Quadravest ETFs have been placed by the Canadian Investment Funds Standards Committee in the Alternative Credit Focus category, while Mulvihill's leveraged and therefore riskier product is in the Alternative Equity Focus category.

Investing in Class A split shares is the \$40 million Brompton Split Corp. Enhanced Equity Income ETF (TSX: CLSA), which was launched in March of last year, and can now report a one-year return.

For the 12 months ended March 31, it returned 55.1%, illustrating how differently the Class A shares perform compared to the split-preferred ETFs. By comparison, the return of Brompton Split Corp. Preferred Share was 3.7% for the same period.

The Brompton Class A split-shares ETF's high return coincided with a bullish period for the S&P/TSX Composite Index, which returned 34.9%. Based on volatility guidelines of securities regulators, Brompton rates its split-preferred ETF as low risk and the Class A product as high risk.

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**Split preferreds – continued from page 3...**

The returns of split preferreds have lagged far behind during the strong comeback of corporate preferreds in the past two calendar years. In 2025 and 2024, Brompton's split-preferred ETF returned 6% and 13.9% respectively, while iShares S&P/TSX Canadian Preferred Share Index ETF (TSX: CPD) returned 15.4% in 2025 and 23.9% in 2024. Over the longer term, however, split preferreds have generated much more stable returns, and with far less volatility.

Brompton has created an index of split-preferred shares called the Index One Split Corp. Preferred Share Index. It tracks the performance of Canadian-listed split preferreds. It's weighted by market capitalization, subject to a cap of 18% per issuer. For the 15 years ended Feb.

28, Brompton compared the returns of its index to that of the iShares ETF, which serves as a proxy for corporate preferreds as an asset class.

During that period, the annualized return was 5.7% for Brompton's index, versus 3.5% for the iShares preferred ETF. The standard deviation of the index return was 4.6%, less than half that of the iShares ETF. The maximum drawdown was 13.6% for the split-prefs index, versus 28.9% for the preferred ETF.

This historical comparison suggests that when diversified by issuer and professionally managed, split preferreds can serve as a valuable low-risk complement in the fixed-income portion of a portfolio, particularly in non-registered accounts. Here are details on one that I recommend.

## RUDY LUUKKO'S TOP PICK

*Prices as of April 10.*

### **Brompton Split Corp. Preferred Share ETF**

**Type:** Exchange-traded fund

**Trading symbol:** SPLT

**Exchange:** TSX

**Current price:** \$10.92

**Entry level:** Current price

**Distribution policy:** Monthly

**Annual payout:** \$0.66

**Yield:** 6%

**Risk rating:** Low risk

**Recommended by:** Rudy Luukko

**Website:** [www.bromptongroup.com](http://www.bromptongroup.com)

**The security:** The fund invests in split-preferred shares and pays monthly tax-advantaged dividends. The underlying holdings are redeemable at par at the investor's option at specific periods, reducing the risk of capital losses.

**Performance:** The fund returned 13.9% in 2024, its first full calendar year, and 6% in 2025. Its annualized return since its June 2023 inception is 9.2%. Its worst three-month performance was a loss of -0.9% ended May 31, 2025, and its best three-month return was 5.5% for the period ended Jan. 31, 2025.

**Why we like it:** The fund has, on average, produced single digit returns that exceeded those of high-quality Canadian bonds, and shows low volatility. Its distributions are eligible for the dividend tax credit. The fund has good liquidity, with an average bid-ask spread of 0.13%.

**Key metrics:** Launched in June 2023, the fund has \$617 million in assets. It's by far the largest of the three Canadian-listed split-pref ETFs. Its management expense ratio is 0.57%. The fund is actively traded, with average daily volume of 270,000 units.

**Portfolio:** The fund currently has 19 holdings, out of the total universe in Canada of 27 publicly traded split-share preferreds. The three largest holdings as of Feb. 28 were 14.6% in Dividend 15 Split Corp. (TSX: DFN.PR.A) managed by Quadravest; 13.1% in Brompton's own Dividend Growth Split Corp. (TSX: DGS.PR.A), and 10% in North American Financial 15 Split Corp. (TSX: FFN.PR.A), also sponsored by Quadravest. There is no duplication of fees for Brompton split prefs held in the ETF.

**Risks:** Rising market interest rates would make the fixed payouts of preferred shares less attractive. The underlying holdings may trade at premiums or discounts to their net asset values. Preferred dividends are subject to credit risk.

**Distributions:** Payments are made monthly. The most recent distribution was 5.5 cents a share in March.

**Who's it for:** Investors who seek to complement their core fixed-income holdings with a low-volatility fund that generates monthly tax-advantaged dividends.

**Action now:** Buy. This ETF is well suited for non-registered accounts because of the eligibility of distributions for the dividend tax credit.

*Rudy Luukko is a veteran fundwatcher and investment journalist who has covered ETFs and mutual funds for 30+ years.*