

Guide to  
**Preferred Shares**

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*To see if investing in preferred shares is right for your situation and financial goals, talk to your ScotiaMcLeod advisor or visit [www.scotiamcleod.com](http://www.scotiamcleod.com) to locate a local ScotiaMcLeod advisor near you.*

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## Introduction

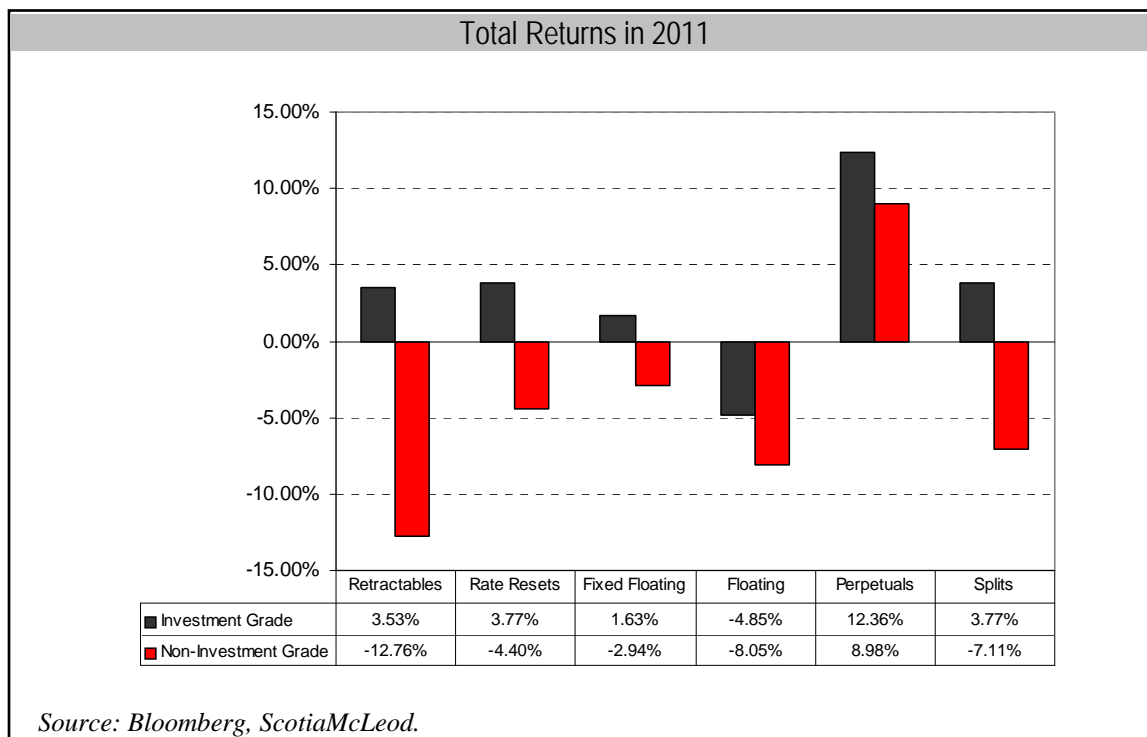
### Market Overview

#### 2011 – Preferred Shares Provide Stable Tax-Efficient Dividend Income

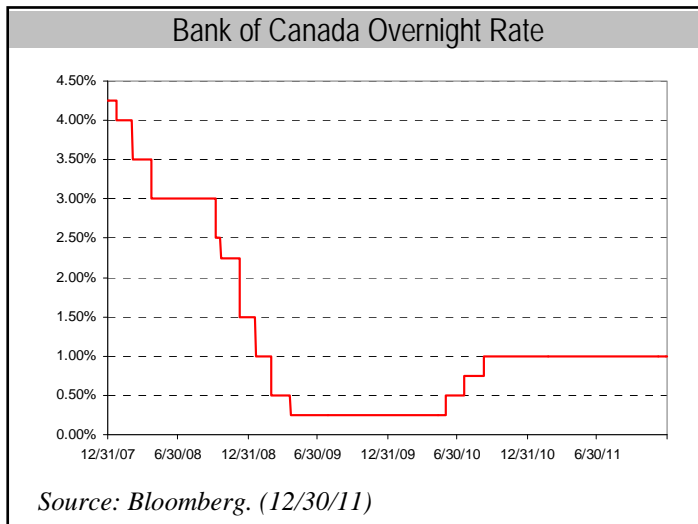
During 2011 the Canadian markets were influenced by global concerns; which lead to a heightened sense of uncertainty, widening credit spreads and a high demand for safe assets. Interest rates declined even further forcing investors to move into either long-dated paper or down the credit scale to achieve their anticipated returns. In these times, preferred shares were often incorporated into fixed income portfolios to enhance yield and allow investors to collect a stable source of tax-efficient dividend income.

The S&P/TSX Preferred Share Index rose by 0.44% on a price basis (without including dividend payments) in 2011 and +5.76% on a total return basis. Currently, the weighted average dividend for the Claymore S&P/TSX Preferred Share ETF which tracks the Index is 5.08% which further demonstrates that overall, preferred share prices remained relatively constant over the year while the investors' return was based on the dividend income the securities provided. In comparison, the DEX Corporate Bond Index provided a +8.24% total return while the S&P/TSX Composite Index fell by -8.71%.

This past year it was the investment grade preferred shares outperforming the non-investment grade sector across all the various types of preferred shares. The underperformance of the non-investment grade sector can be attributed to the heightened uncertainty in the markets which caused investors to focus on safe assets and pushed the credit spreads on non-investment grade securities wider. Looking across the various different types of preferred shares the perpetuals were the top performers. This type of preferred share has a longer duration and hence performs well in a declining interest rate environment. Additionally, recent regulatory changes (Basel III) have dramatically increased the likelihood of banks redeeming their perpetual preferred shares and hence, made these securities more attractive. Focusing solely on the bank perpetuals likely to be redeemed, the average total annual return was +15.43%.



The floating rate preferred shares were the sector which underperformed on the year. This type of preferred share performs well in a rising interest rate environment as it pays its dividend based on the Prime rate. Throughout the year, the Bank of Canada's kept its target overnight rate at 1.00%, hence Prime remained at 3.00% for the entirety of 2011. The overnight rate stayed at these accommodative levels due to the uncertainty surrounding the global economic outlook and most recently the severity of the sovereign debt crisis in Europe. In August, the Federal Reserve, during the rate announcement, mentioned its intention of leaving the Fed Funds rate at the current level of 0.25% until mid-2013. This dim look on the U.S. economy sent floating rate preferred shares falling as the prospectus for higher Prime rates was pushed out for another two years at best. With heightened downside risks in the global economy Scotia Economics mentions that *“Canada has the flexibility to lower its benchmark overnight rate if deteriorating global economics and financial circumstances slow domestic growth even further.”*



**Economic Forecast**

Scotia Economics is expecting global economic activity to moderate again this year with worldwide output growth forecast to increase 3.6%. Both Canadian and U.S. output growth is expected to advance 1.8% in 2012 and increase to 2.4% and 2.2% respectively the following year (2013). Core inflation pressures are expected to remain subdued in 2012 as core consumer prices are forecast to increase 1.9% which is the same inflation growth value experienced in 2011. Government bond yields are anticipated to remain on the historically low side well into 2012 as we await renewed stability in the euro zone. The Bank of Canada overnight target rate is expected to remain on hold throughout 2012 and is not expected to be increased until the second quarter of 2013 when it is forecast at 1.50%. The complete forecast for the Government of Canada yield curve can be seen in the table below. Essentially, we are anticipating a steeper yield curve with slightly higher yields across the board and the Bank of Canada leaving the overnight rate at 1.00% throughout 2012. The one year forecast predicts yields to be anywhere from 0.91% - 1.12% higher in maturities greater than 5-years where as smaller movements are expected in the short-end where we could see rates higher by +0.30% - 0.84%.

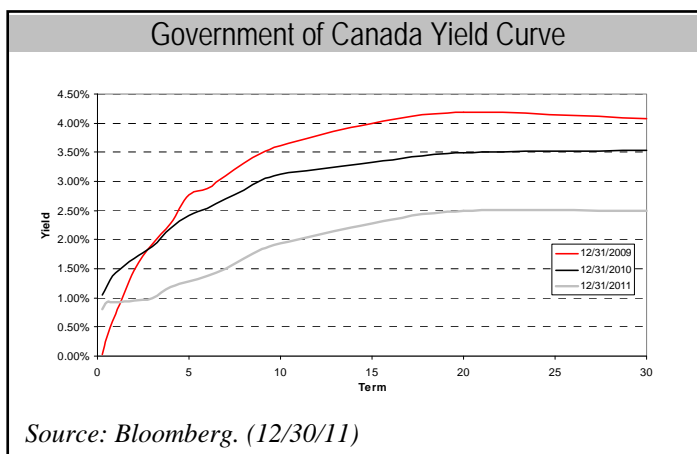
Scotia Economics Interest Rate Forecast									
	12/30/2011	12 Q1 f	12 Q2 f	12 Q3 f	12 Q4 f	13 Q1 f	13 Q2 f	13 Q3 f	1 Q4 f
<b>Canada</b>									
<b>BoC Overnight Target Rate</b>	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.50%	2.00%	2.25%
<b>Prime Rate</b>	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.50%	4.00%	4.25%
<b>3-month T-bill</b>	0.80%	0.85%	0.90%	0.95%	1.10%	1.30%	1.80%	2.15%	2.30%
<b>2-year Canada</b>	0.96%	0.95%	1.00%	1.45%	1.80%	1.95%	2.10%	2.35%	2.40%
<b>5-year Canada</b>	1.28%	1.25%	1.40%	2.00%	2.40%	2.45%	2.50%	2.65%	2.75%
<b>10-year Canada</b>	1.94%	1.90%	2.10%	2.50%	2.95%	3.05%	3.10%	3.15%	3.30%
<b>30-year Canada</b>	2.49%	2.45%	2.50%	2.90%	3.40%	3.55%	3.60%	3.65%	3.80%

Source: Scotia Capital. (1/3/12)

### Interest Rate Movement

On a year-over-year basis, the Government of Canada yield curve flattened in shape as we saw yields move lower across the curve due to the strong demand for safe assets. In the long-end of the curve (> 10-year maturities) yields moved lower by 1.00 – 1.18%. This move in the long-end was a positive contributor to the performance of both the straight perpetual preferred shares and the long-dated corporate bonds (+15.84%). In the short-end (less than 2 years) yields moved lower by a lesser extent (0.25 – 0.72%) corresponding with the notion that absolute yields were extremely low and investors were moving into longer dated paper to achieve desired returns.

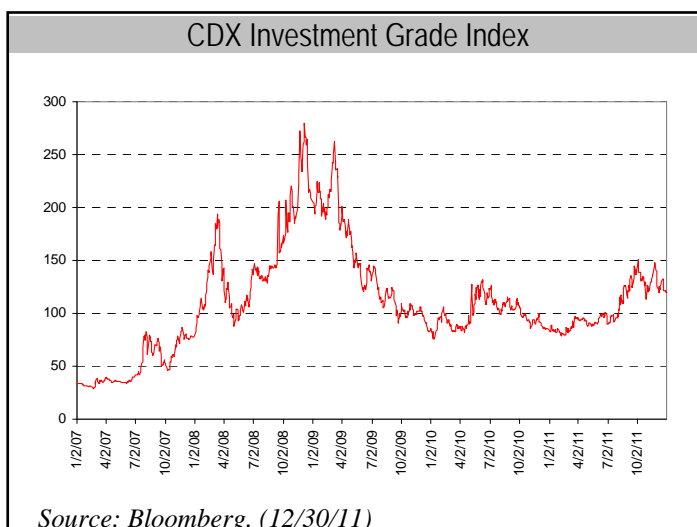
Overall, yields remaining at extremely low levels throughout the year have helped the performance of the preferred share market as investors began searching for alternative investment ideas to generate a higher return within their portfolio. Over the next year, the fate of interest rates will depend on the state of the global economy. With this in mind the preferred share market is expected to continue to deliver a return in the form of dividend income with limited price appreciation. However, given global economic stability, rising interest rates will pursue, putting downward pressure on the price of preferred shares.



### Credit Spreads

The widening or tightening of credit spreads is also a key factor that has the potential to affect the preferred share market. Credit spreads can be defined as the yield pick-up over the relevant benchmark Government bond and are representative of investors' risk appetite. One measure of credit spreads in general is the Credit Default Swap (CDX) index. This index is made up of 125 investment grade corporate bond names and has become a popular measure of the market's risk appetite. This index essentially represents the cost of insuring this basket against default.

As seen in the graph, the CDX Index moved higher year-over-year as it started 2011 at 0.85% and finished the year at 1.20% which represents the overall theme of widening credit spreads. Additionally, at various points throughout the year the Index moved as high as 1.48% - levels which had not been seen since mid-2009. As it is apparent while looking at the graph of credit spreads - during times of uncertainty, investors become more cautious and sell their riskier holdings such as corporate bonds and preferred shares and switch into the safety of government debt.



The widening of credit spreads tends to affect non-investment grade securities to a greater extent than investment grade credit as a lower credit rating signifies lower quality and higher risk. With this in mind, the wider credit spreads seen in 2011 correspond to the underperformance of the non-investment grade sector of the preferred share market. Looking ahead, a stronger economy and hence higher yields should provide credit spreads to tighten which would offset some of the effects of the rise in interest rates.

### **Regulatory Changes**

This past year the Office of Superintendent of Financial Institutions of Canada (OSFI) noted its intention to adopt the rules set forth in Basel III in Canada. Basel III refers to an international framework which regulators have created, and includes new capital guidelines to help protect against any future economic or financial crisis. The new rules require institutions to meet minimum requirements to ensure all regulatory capital, and not just common equity, have mechanisms to absorb losses in the event the entity should become non-viable. Furthermore, there have been changes as to which instruments are eligible as regulatory capital and the rules provide a transition and phase-out for instruments that do not meet Basel III requirements. These rules apply to banks, bank holding companies and federally regulated trust and loan companies. Most outstanding bank preferred shares are affected, as they are now considered non-qualifying capital and their eligibility will be phased out over a 10-year period beginning January 1, 2013 in order to comply with the new regulations. There is one caveat as CIBC has received approval from OSFI that its Series 26, 27 & 29 will be eligible as the new form of Tier 1 Capital.

These changes have given banks a greater incentive to redeem some of their preferred shares. Focusing on the outstanding bank rate resets, it is anticipated that most issues will be called at the first reset date as banks will be able to refinance at a cheaper rate. Additionally, with the phase-out starting in 2013, there will be less room for a company to carry non-qualifying capital. However, it should be noted that the rate reset preferred shares which have a lower reset spread could be extended past the first call date. Looking at the perpetuals, it is expected that the issuer redeem those securities with the highest dividend first and work to the lower dividend paying perpetuals as long as it still makes sense for the company to redeem the securities. In essence, each Canadian bank will play a balancing act throughout the phase-out period to determine which securities are in their best interest to leave outstanding and which securities would be the most beneficial to redeem.

Any capital instruments issued after January 1, 2013 must meet all of the Basel III criteria in order to qualify as regulatory capital. Post 2013, newly issued Tier 1 bonds and preferred shares are required to include a feature that allows for the conversion to common shares from the regulator when OSFI feels the firm is at the point of non-viability. It is expected that OSFI will not convert these securities if it felt that the firm could be not saved with the conversion. Furthermore, upon conversion the holders of Tier 1 securities will essentially own a major portion of the firm, and that the restructured entity will be strong enough to continue to exist as a going concern.

These regulatory changes will impact the face of the preferred share market and there is also the potential that life insurance companies will become regulated under a similar framework. Investors should become aware of their bank preferred share holdings and determine their capital eligibility. Additionally, watch for new issuance this year that will most likely be in the rate-reset format which is likely to include the new conversion to common stock feature in the prospectus.

## Rating Changes

There have been a number of credit rating and outlook changes over the past year with more downgrades than upgrades. In response to the Basel III regulatory changes, DBRS put the bank preferred shares which had a conversion feature on creditwatch negative. Furthermore, CIBC received confirmation from OSFI that its Series 26, 27 & 29 preferred shares would be eligible as Tier 1 capital under Basel III and these issues were then downgraded by S&P and are currently rated P-2.

During the process of Atlantic Power Corp acquiring Capital Power L.P, the CPI Preferred Equity preferred shares (CZP.PR.A & B) were downgraded by both S&P and DBRS as the terms of the transaction had a negative impact on the company's ability to pay down its debt obligations. CPI Preferred Equity is currently rated Pfd-4 and P-4 (L) by DBRS and S&P respectively. Yellow Media Inc. is another company that has been under pressure during the year. Following the elimination of the common share dividend and altering the credit agreement which now restricts the company from redeeming their preferred shares in cash, Yellow Media is currently rated Pfd-4L and P-4 (L) by DBRS & S&P respectively.

For a list of all the rating changes throughout 2011 please refer to the table below.

Rating Changes in 2011							
Issuer	Symbol	Type	Rating Agency	Date Changed	New Rating	Old Rating	Current Outlook
5Banc Split Inc.	FBS.PR.B	Split Share	DBRS	1-Mar-11	Pfd-3H	Pfd-3	
Bank of Montreal	BMO.PR.	Reset/Perp	S&P	13-Dec-11	P-2 (H)	P-1 (L)	Stable
CIBC (non-convertible)	CM.PR.I, J, K, L, M, P	Reset/Perp	S&P	13-Dec-11	P-2 (H)	P-1 (L)	Stable
CIBC Ser 26 & 27 (convertible into common)	CM.PR.D, E	Perpetual	S&P	13-Dec-11	P-2	P-2 (H)	Stable
CIBC Ser 26 & 27 (convertible into common)	CM.PR.D, E	Perpetual	S&P	16-Sep-11	P-2 (H)	P-1 (L)	Stable
CPI Preferred Equity Ltd	CZP.PR.A, B	Perp/Reset	S&P	21-Dec-11	P-4 (L)	P-3 (H)	Stable
CPI Preferred Equity Ltd	CZP.PR.A, B	Perp/Reset	DBRS	16-Nov-11	Pfd-4	Pfd-3	Stable
Dundee Corp	DC.PR.A, B	Retract/Reset	DBRS	28-Nov-11	Pfd-3	Pfd-3L	Stable
DundeeWealth	DW.PR.A	Retractible	S&P	26-May-11	P-2 (H)	P-3	Stable
Financial 15 Split Corp	FTN.PR.A	Split	DBRS	29-Dec-11	Pfd-4	Pfd-3	
Rona Inc.	RON.PR.A	Reset	DBRS	10-Nov-11	Pfd-3L	Pfd-3	Negative
Yellow Media Inc	YLO.PR.A, B, C, D	Retractible, Reset	DBRS	28-Sep-11	Pfd-4L	Pfd-3	Negative
Yellow Media Inc	YLO.PR.A, B, C, D	Retractible, Reset	DBRS	4-Aug-11	Pfd-3	Pfd-3H	Negative
Yellow Media Inc	YLO.PR.A, B, C, D	Retractible, Reset	S&P	4-Aug-11	P-4 (H)	P-3	Stable
Yellow Media Inc	YLO.PR.A, B, C, D	Retractible, Reset	S&P	5-Dec-11	P-4 (L)	P-4 (H)	Negative

*Source: DBRS, Standard & Poors.*

Outlook Changes in 2011							
Issuer	Symbol	Type	Rating Agency	Date Changed	Rating	Old Outlook	Current Outlook
Bank of Montreal Series 10	BMO.PR.V	Perpetual	DBRS	17-Aug-11	Pfd-1L		Credit Watch Negative
Brookfield Asset Mangement	BAM	Various	S&P	25-Jul-11	P-2	Negative	Stable
Brookfield Properties	BPO	Various	S&P	21-Jun-11	P-3 (H)	Negative	Stable
Canaccord Financial	CF.PR.A	Reset	DBRS	21-Dec-11	Pfd-3L	Stable	Negative
Capital Power Corp.	CPX.PR.A	Reset	S&P	28-Jun-11	P-3 (H)	Negative	Stable
CIBC Series 26, 27 & 29	CM.PR.D, E, G	Perpetual	DBRS	17-Aug-11	Pfd-1L		Credit Watch Negative
CPI Preferred Equity Ltd	CZP.PR.A,B	Perp, Reset	S&P	21-Jun-11	P-3 (H)		Credit Watch Negative
Enbridge Inc.	ENB.PR.A, B, D	Reset/Perp	S&P	6-Dec-11	P-2	Negative	Stable
Fairfax Financial Holdings Ltd	FFH	Reset	S&P	28-Oct-11	P-3	Stable	Positive
HSBC Bank Canada	HSB.	Reset/Perp	DBRS	28-Jan-11	Pfd-2H	Negative	Stable
Rona Inc	RON.PR.A	Reset	S&P	12-Aug-11	P-3	Stable	Negative
Royal Bank of Canada	RY	Reset/Perps	S&P	6-Oct-11	P-1L	Positive	Stable
Royal Bank Series W	RY.PR.W	Perpetual	DBRS	17-Aug-11	Pfd-1L		Credit Watch Negative
TD Bank	TD	Reset/Perps	S&P	6-Oct-11	P-1 (L)	Positive	Stable
Toronto Dominion Series M & N	TD.PR.M, N	Retractible	DBRS	17-Aug-11	Pfd-1L		Credit Watch Negative
TransAlta Corp	TA.PR.D	Reset	S&P	9-Aug-11	P-3 (H)	Stable	Negative

*Source: DBRS, Standard & Poors.*

### New Issuance

Total preferred share new issuance was over \$6.7 billion during 2011 which is an annual increase of 16% compared to the preferred share issuance experienced in 2010. It was the non-financial issuers contributing to the growth of issuance as they used the preferred share market as a means of financing, contributing to approximately 58% of the new issuance throughout the year. This magnitude of non-financial issuance is much larger than we have seen in the past few years, as illustrated in the chart on the following page. Issuance by financial institutions only totalled approximately \$2.7 billion, versus \$2.8 billion the year prior.

The rate reset preferred shares continue to be the most popular type of issue and represented 99% of the new issue market in 2011. Among these new issues the average reset spread is Government of Canada bond yield + 2.43%. Rate reset preferred shares are the dominate type of preferred share within Canada and make up 44.37% of the Canadian preferred share market versus straight perpetuals which account for 33.96% on a market capitalization basis as seen in the chart on the following page.

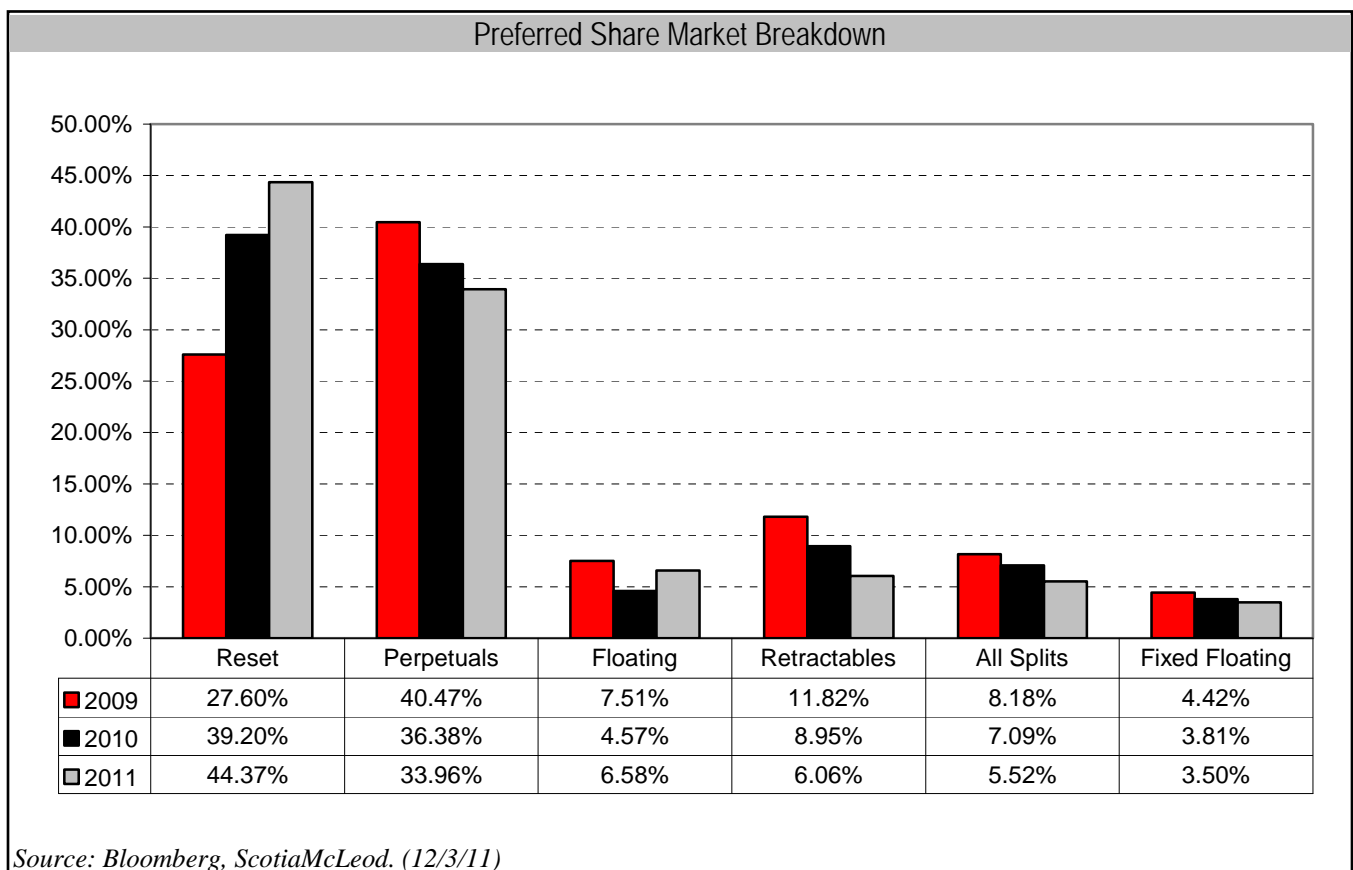
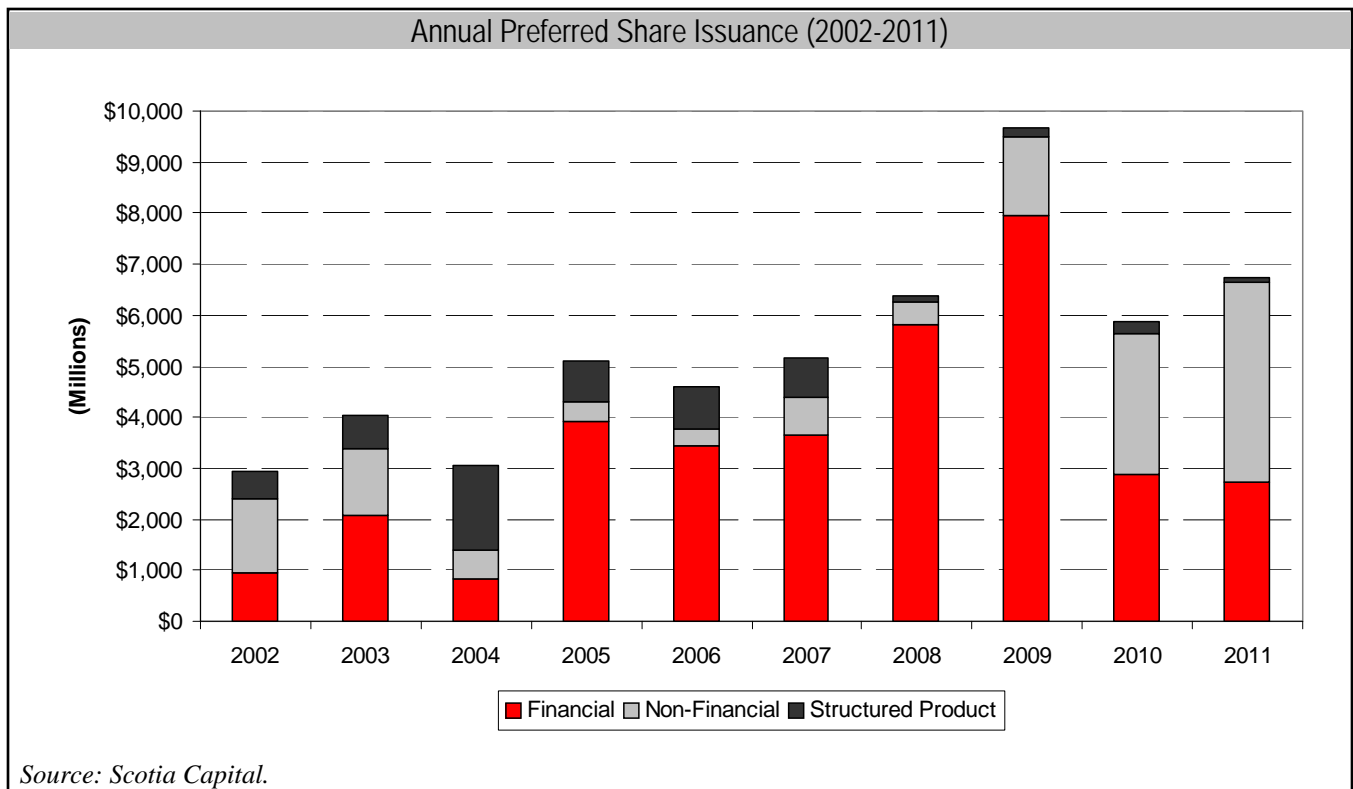
Throughout the year there was only 1 new bank issue as The Bank of Montreal issued \$290 million of a rate reset preferred share. Due to the upcoming regulatory changes banks have been quiet with respect to new issues as they await further clarity regarding a structure that will be eligible as Tier 1 capital under Basel III and one which is also acceptable to the market. Demand for straight perpetual new issues is negligible as we are in a low-interest rate environment with higher rates expected in the future.

Overall, demand for new issue preferred shares was very dependant on the name of the issuer and the reset spread offered. Taking advantage of the lack of financial issuance there have been new issuers with no outstanding preferred shares in the market, such as RioCan REIT, Rona Inc, Bell Aliant Inc., Husky Energy Inc., Shaw Communications Inc. & Talisman Energy Inc. that issued preferred shares for their financing needs for the first time.

Looking forward, the new issue market in 2012 is expected to remain active with non-financial issuers continuing to use the preferred share market as a means of financing. Additionally, a new form of Basel III compliant bank preferred share will likely be issued to replace those being redeemed.

Preferred Shares Redeemed and New Issues (Annually)			
Year	Redemptions	New Issues	Difference
2002	\$1,835,848,008	\$2,566,675,000	\$730,826,992
2003	\$4,014,161,937	\$4,027,960,595	\$13,798,658
2004	\$4,914,862,381	\$3,040,919,193	-\$1,873,943,188
2005	\$3,426,809,260	\$5,198,672,525	\$1,771,863,265
2006	\$2,429,103,077	\$4,639,959,734	\$2,210,856,657
2007	\$3,019,845,298	\$4,990,931,691	\$1,971,086,393
2008	\$997,562,364	\$6,490,810,594	\$5,493,248,230
2009	\$1,164,855,822	\$9,683,344,111	\$8,518,488,289
2010	\$1,758,879,452	\$5,812,308,503	\$4,053,429,051
<b>2011</b>	<b>\$2,112,857,525</b>	<b>\$6,737,271,800</b>	<b>\$4,624,414,275</b>
TOTAL '02-'11	\$25,674,785,124	\$53,188,853,745	\$27,514,068,621
Average	\$2,567,478,512	\$5,318,885,375	

*Source: ScotiaMcLeod.*



Preferred Share Issuance in 2011

Issue	Symbol	Credit Rating		Type	Listing Date	Size (\$M)	Issue Price	Type of Distribution	Dividend/ Distribution	Issue Yield	Reset Rate
		DBRS	S&P								
First National Financial Corporation	FN.PR.A	Pfd-3		Reset	25-Jan-11	\$100	\$25.00	Dividend	\$1.163	4.65%	5-yr CAN + 2.07%
RioCan Real Estate Investment Trust	REI.PR.A	Pfd-3H	P-3 (H)	Reset-Trust	26-Jan-11	\$125	\$25.00	Interest/ROC	\$1.313	5.25%	5-yr CAN + 2.62%
Brookfield Asset Management Inc. Se	BAM.PR.X	Pfd-2L	P-2	Reset	8-Feb-11	\$235	\$25.00	Dividend	\$1.150	4.60%	5-yr CAN + 1.80%
Rona Inc. Ser 6	RON.PR.A	Pfd-3	P-3 (H)	Reset	22-Feb-11	\$173	\$25.00	Dividend	\$1.313	5.25%	5-yr CAN + 2.65%
GMP Capital Inc. Ser B	GMP.PR.B	Pfd-3L		Reset	22-Feb-11	\$100	\$25.00	Dividend	\$1.375	5.50%	5-yr CAN + 2.89%
Bell Aliant Preferred Equity Inc. Series	BAF.PR.A	Pfd-3H	P-3 (H)	Reset	9-Mar-11	\$288	\$25.00	Dividend	\$1.213	4.85%	5-yr CAN + 2.09%
Bank of Montreal Series 25	BMO.PR.Q	Pfd-1L	P-2 (H)	Reset	11-Mar-11	\$290	\$25.00	Dividend	\$0.975	3.90%	5-yr CAN + 1.15%
Manulife Financial Corp Series 3	MFC.PR.F	Pfd-2H	P-2	Reset	11-Mar-11	\$200	\$25.00	Dividend	\$1.050	4.20%	5-yr CAN + 1.41%
Husky Energy Inc. Ser 1	HSE.PR.A	Pfd-2L	P-2 (L)	Reset	18-Mar-11	\$300	\$25.00	Dividend	\$1.113	4.45%	5-yr CAN + 1.73%
Shaw Communications Inc. Ser A	SJR.PR.A	Pfd-3	P-3	Reset	31-May-11	\$300	\$25.00	Dividend	\$1.125	4.50%	5-yr CAN + 2.00%
Canaccord Financial Inc. Ser A	CF.PR.A	Pfd-3L		Reset	23-Jun-11	\$114	\$25.00	Dividend	\$1.375	5.50%	5-yr CAN + 3.21%
Capstone Infrastructure Corp Ser B	CSE.PR.A		P-3	Reset	30-Jun-11	\$75	\$25.00	Dividend	\$1.250	5.00%	5-yr CAN + 2.71%
BCE Inc. Series AK	BCE.PR.K	Pfd-3H	P-2 (L)	Reset	23-Jun-11	\$345	\$25.00	Dividend	\$1.038	4.15%	5-yr CAN + 1.88%
Intact Financial Ser 1	IFC.PR.A	Pfd-2L		Reset	12-Jul-11	\$250	\$25.00	Dividend	\$1.05	4.20%	5-yr CAN + 1.72%
SunLife Financial Series 10R	SLF.PR.H	Pfd-2L	P-2 H	Reset	12-Aug-11	\$200	\$25.00	Dividend	\$0.98	3.90%	5-yr CAN + 2.17%
Intact Financial Ser 3	IFC.PR.C	Pfd-2L		Reset	18-Aug-11	\$250	\$25.00	Dividend	\$1.05	4.20%	5-yr CAN + 2.66%
Brookfield Office Properties Ser R	BPO.PR.R	Pfd-3H	P-3 (H)	Reset	2-Sep-11	\$250	\$25.00	Dividend	\$1.28	5.10%	5-yr CAN + 3.48%
Canadian Utilities Limited Ser Y	CU.PR.C	Pfd-2H	P-2 (H)	Reset	21-Sep-11	\$325	\$25.00	Dividend	\$1.00	4.00%	5-yr CAN + 2.40%
Enbridge Inc. Ser B	ENB.PR.B	Pfd-2L	P-2	Reset	30-Sep-11	\$500	\$25.00	Dividend	\$1.00	4.00%	5-yr CAN + 2.40%
Brookfield Asset Management Inc. Se	BAM.PR.Z	Pfd-2L	P-2	Reset	2-Nov-11	\$250	\$25.00	Dividend	\$1.20	4.80%	5-yr CAN + 2.96%
SunLife Financial Series 12R	SLF.PR.I	Pfd-1L	P-2 (H)	Reset	10-Oct-11	\$300	\$25.00	Dividend	\$1.06	4.25%	5-yr CAN + 2.73%
Enbridge Inc Ser D	ENB.PR.D	Pfd-2L	P-2	Reset	23-Nov-11	\$450	\$25.00	Dividend	\$1.00	4.00%	5-yr CAN + 2.37%
RioCan Real Estate Investment Trust	REI.PR.C	Pfd-3H	P-3 (H)	Reset-Trust	30-Nov-11	\$150	\$25.00	Interest/ROC	\$1.18	4.70%	5-yr CAN + 3.18%
Bell Aliant Preferred Equity Inc. Ser C	BAF.PR.C	Pfd-3H	P-3 (H)	Reset	7-Dec-11	\$115	\$25.00	Dividend	\$1.14	4.55%	5-yr CAN + 3.09%
TransAlta Corp. Ser C	TA.PR.F	Pfd-3	P-3 (H)	Reset	30-Nov-11	\$275	\$25.00	Dividend	\$1.15	4.60%	5-yr CAN + 3.10%
Manulife Financial Corp Ser 5	MFC.PR.G	Pfd-2H	P-2 (H)	Reset	6-Dec-11	\$200	\$25.00	Dividend	\$1.10	4.40%	5-yr CAN + 2.90%
Talisman Energy Inc. Ser 1	TLM.PR.M	Pfd-3H	P-3 (H)	Reset	13-Dec-11	\$200	\$25.00	Dividend	\$1.05	4.20%	5-yr CAN + 2.77%
BCE Inc. Series AK	BCE.PR.K	Pfd-3H	P-2 (L)	Reset	4-Jan-12	\$280	\$25.00	Dividend	\$1.038	4.15%	5-yr CAN + 1.88%
						<b>\$6,638</b>			<b>Average</b>	<b>4.53%</b>	<b>5-yr CAN + 2.43%</b>
Allbanc Split Corp II	ALB.PR.B	Pfd-2L		Split	28-Feb-11	\$47	\$21.80	Dividend	\$0.927	4.25%	N/A
Claymore Big Bank Big Oil Split Corp	BPO.PR.A	Pfd-2L	N/A	Split	29-Sep-11	\$14	\$10.20	Dividend	\$0.53	5.25%	N/A
5Banc Split Inc Ser 1 Class C	FBS.PR.C	Pfd-2L		Split	15-Dec-11	\$26	\$10.00	Dividend	\$0.48	4.75%	N/A
Utility Split Trust Class B	UST.PR.B	Pfd-2L	N/A	Split	19-Dec-11	\$12	\$10.00	Interest	\$0.53	5.25%	N/A
						<b>\$6,737</b>					

Source: Bloomberg, ScotiaMcLeod.

## Investing in Preferred Shares

### Advantages

- **Tax Advantaged Investment Income.** The main reason to invest in preferred shares is for investment income. Preferred shares may pay higher dividends than common shares and dividend income provided to investors is treated favorably from a tax perspective relative to other forms of income. Therefore, preferred shares are often able to offer a better after-tax yield than bonds of similar credit quality and risk.

Dividends received by Canadian residents from Canadian corporations are taxed at a lower rate than interest income due to the dividend tax credit, which recognizes that a dividend is paid from the after-tax earnings of the corporation. Using the most recent proposed 2012 Ontario tax rates, an investor in the highest income tax bracket pays 46.41% tax on interest income and 29.54% on dividend income. Hence, the lower tax rate applied to dividends provides a significant advantage. After tax, an investor would retain \$70.46 from \$100.00 in dividends, but only \$53.59 from interest income. Therefore, an investor would need approximately \$1.31 ( $\$70.46/\$53.59$ ) of interest income to equal \$1.00 of dividend income before taxes are paid. This difference in the amount of income required before taxes is described as a “pre-tax interest equivalent” amount. This can be calculated by multiplying the amount of dividend income by a factor (1.31 in the case of Ontario) that takes into account the different tax rates for dividends and interest. A table of pre-tax interest equivalent multipliers for each province can be found in Appendix III.

- **Security of Principal.** Greater security of principal may also motivate investors to invest in preferred shares as they rank above the interests of common shareholders, both in their seniority to receive dividend payments and their higher ranking in the distribution of assets if a company is liquidated. However, preferred shares rank below all other forms of debt.
- **Priority of Dividends.** Preferred shares’ dividend payments can also be “cumulative”, which means that dividends accrue to the holder of the preferred share if the issuer misses a payment. The issuer must pay the missed dividend before any dividends are paid on common shares. Most financial preferred shares are non-cumulative. Additionally, in order for an issuer to suspend the dividend payment on the preferred shares they must first suspend all dividend payments for the common shareholders.
- **Exchange Traded Markets.** Unlike bonds, preferred shares trade on public exchanges where both the bid and ask prices and volumes are shown, as well as previous trade data being visible for all market participants. This is an advantage for investors as it provides greater transparency in pricing.

## Risks

The risks of investing in preferred shares include interest rate risk, credit risk, call risk, liquidity risk, and the risk of tax law changes that may impact the tax advantaged status of dividend income.

- **Interest Rate Risk.** Preferred shares are income investments that are impacted by changes in the level of interest rates. There is an inverse relationship between interest rates and the price of preferred shares - i.e. as interest rates rise, prices fall. The amount of the price change due to a change in interest rates is related to both the term to redemption and the dividend rate. In general, the longer the term, and the lower the dividend rate, the greater the interest rate risk. Investors in term preferred shares (i.e. those with a fixed maturity date) will lock in a rate of return upon the purchase of a preferred share but will be subject to reinvestment risk on dividends earned and principal repayment. Investors in straight perpetual preferred shares are exposed to a greater degree of interest rate risk due to the fact that these preferred shares lack a maturity date and are structured to pay a fixed dividend in perpetuity to the holder.
- **Credit Risk.** Credit risk involves any change in the creditworthiness of the preferred share issuer. The creditworthiness of an issuer refers to its general financial strength, including its ability to pay dividends and repay principal on maturity. The credit quality of preferred shares in Canada is monitored by two independent credit rating agencies: Dominion Bond Rating Service (DBRS), and Standard & Poor's (S&P). Investors can consult these two agencies to assess the credit risk of investing in the preferred shares of an individual company. Credit risk is also apparent in credit spreads (yield pick-up over Government of Canada bonds). Preferred shares which have a longer term (perpetuals) will be impacted to a greater extent by credit spreads than those which have a short term to redemption. Credit spreads have the same impact as interest rates - i.e. widening credit spreads, increases yield, and depressed the price of preferred shares.
- **Call Risk.** Many preferred shares have a call option built in where the issuer can call all or part of the issue. This is a disadvantage to the investor as the call will only be exercised when it is advantageous for the issuer. Preferred share call options are usually exercised in a declining rate environment when it is cost effective for the issuer to call a preferred share which has a high dividend rate. However, factors such as refinancing options of the issuer, size of the issue, and current market conditions also impact the issuers' decision to call outstanding preferred shares.
- **Liquidity Risk.** This risk arises from the difficulty of selling preferred shares in the secondary market due to the lack of liquidity relative to most bonds and common equity. Liquidity risk can be measured by size of the spread between the bid and the offer price - i.e. wider spreads increase the risk.
- **Tax Risk.** One of the attractive features of preferred shares is the lower rate of tax applied to dividend income compared to interest income. The relative attractiveness of this feature depends on the investors' marginal tax bracket and their province of residence. Changes to provincial or federal tax rates may affect the attractiveness of preferred shares relative to fixed income investments. In general, for investors in lower tax brackets, dividend income becomes less attractive relative to interest income (on an after-tax basis).

## Incorporating Preferred Shares Within a Portfolio

Preferred shares can differ dramatically depending on their structure, yield, term, and credit quality. When incorporating preferred shares into a portfolio an investor needs to consider a number of factors in order to determine whether a particular preferred share is an appropriate investment. Using the guidelines set out in an Investment Policy Statement is a perfect starting point as it spells out an investor's investment philosophy, asset allocation targets, and expected results.

**Return Objectives.** It is important to consider the return requirement that the investor is anticipating, when purchasing fixed income products. An investor must also evaluate the various income products available and choose a product which generates an adequate return for the investor. There are two components of investment return from a preferred share: dividend income and capital gains (or losses). The current yield of a preferred share is calculated by dividing the dividend by the purchase price. However, simply looking at current yield can be misleading as it does not account for the accrued dividends or any potential capital gains or losses. If the investor is purchasing the preferred share at a discount (or premium) to its par value, then there is a capital gain (or loss) that if included in the yield calculation gives a more precise return estimate. The most accurate measure of yield for preferred shares is the bond equivalent yield, which provides an all-in rate of return based on purchase price, dividend payments, lower tax rates on dividend income, and the maturity value (if any). The bond equivalent yield is then compared to bonds of similar term to provide a gauge of relative value. The greater the difference (spread) between the preferred share yield and the yield on Government of Canada bonds of similar term, the greater the incentive for the investor to purchase preferred share rather than Government paper.

**Risk Tolerance.** In order for an investor to achieve their required return, the risk inherent in purchasing a preferred share must also be assessed. Credit ratings are often used to gauge the issuers' ability to consistently pay dividends and repay principal at maturity. Preferred share credit ratings vary from P-1 (highest quality) to P-5 (lowest quality). Preferred shares are considered "investment grade" if they are rated P-2 (low) or higher. Conservative investors may wish to limit their preferred share investments to investment grade preferred shares. More risk tolerant preferred share investors may consider non-investment grade preferred shares to take advantage of higher yields provided they are fully aware of the greater risk.

### Investor Constraints:

- **Time Horizon** - Given that most investors consider preferred shares for current income, the length of time a preferred share will be outstanding in the market and paying dividends is an important consideration. If the investor has a definitive time horizon, retractables and split shares should be the preferred shares of choice as these have a maturity date and investors can predict their cash flows accordingly. Additionally, the advantage of shorter maturities is that they exhibit less sensitivity to fluctuations in interest rates. The disadvantage is that they require more frequent reinvestment of principal. For investors who are comfortable lending their money indefinitely there are various types of perpetual preferred shares which offer investors an income stream without a definitive maturity date. Straight perpetual preferred shares pay a fixed dividend and have no maturity date. Rate reset/fixed-floating and floating rate preferred shares have a readjustment mechanism that resets the dividend rate periodically.

- **Liquidity Needs** – Determining whether the investor has ongoing liquidity needs will also influence the choices for preferred shares within a portfolio. Generally speaking, the preferred share market is less liquid than the common share market as issues are smaller in size and there are fewer investors. Therefore, if the investor may have upcoming liquidity needs it is recommended focusing on issues which have more than 5 million shares outstanding or 2 million shares outstanding in the split share space. However, each issue should be scrutinized over liquidity as it may change depending on market conditions. In addition, preferred shares which have a set retraction/maturity date may be more suitable for investors with future liquidity needs.
- **Tax Considerations** – An individual's tax rates must also be evaluated since the dividend income usually offers a beneficial tax treatment compared to interest income. The tax rates depend on investors' marginal tax bracket and their province of residence.

### Diversification Principles

A diversified investment portfolio serves as a prerequisite to help limit risks and mitigate potential losses for investors. To properly diversify a portfolio, academic studies on the equity market have proven that holding 20 different securities provides an optimal level of diversification, although a diversification of at least 10 securities is considered ample. Therefore, in most cases, investors should avoid having an exposure of more than 10% in a single name within a preferred share portfolio.

Further studies have proven that with lower credit quality, a greater level of diversification is required to further mitigate the greater risks of default. An allocation to any security or issuer based on credit quality is further predicated upon an investor's risk tolerance. The following table highlights our recommended maximum allocation for broad investor risk categories in the Canadian preferred share market:

Diversification Principles			
	Pfd-1(H) - Pfd - 1(L)	Pfd-2(H) - Pfd-2(L)	< Pfd-3 (H)
<b>Conservative</b>	70%	30%	0%
<b>Moderate</b>	50%	40%	10%
<b>Aggressive</b>	30%	45%	25%

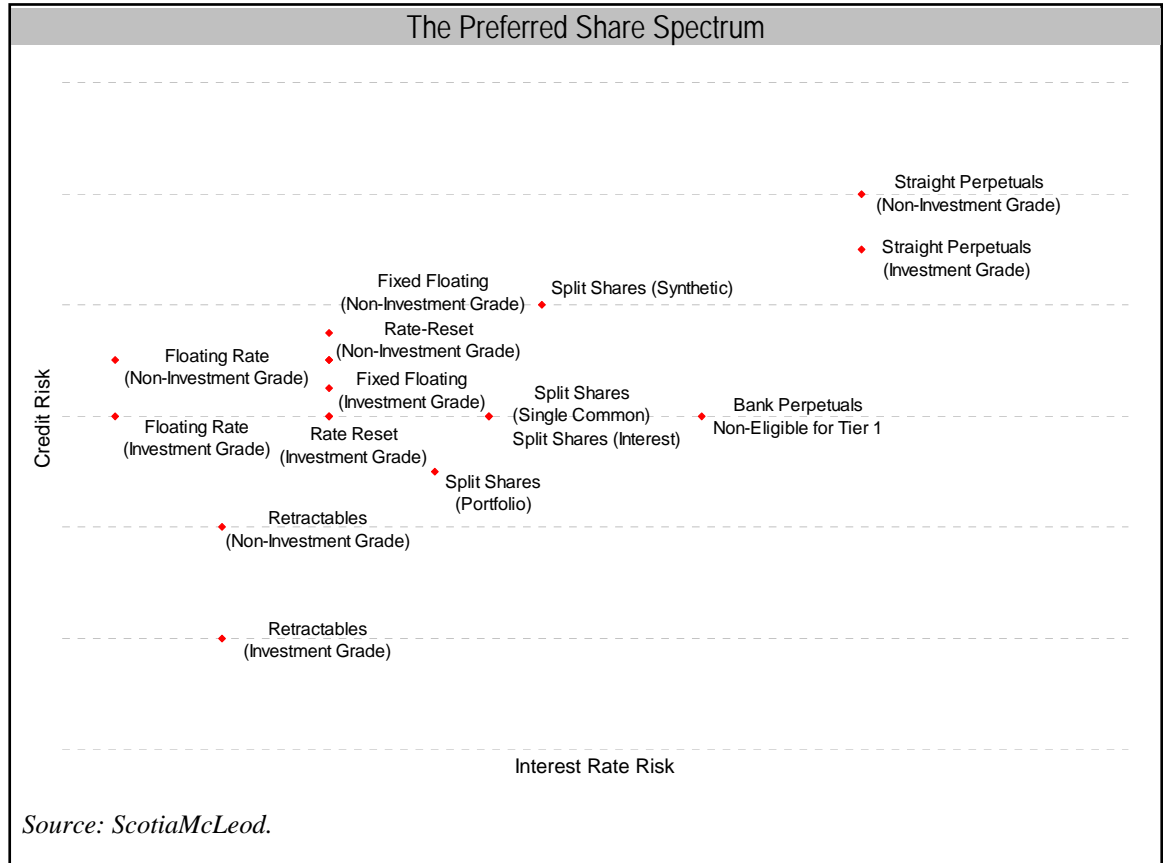
*Source: ScotiaMcLeod.*

The indicated percentage allocation approach is not an exact science, but is based on an attempt to ensure proper diversification. Other diversified principles to consider when constructing a conservative, preferred share portfolio include:

- Within the fixed-income portion of a portfolio, preferred shares should comprise approximately 20%, and no more than 50%, of the total fixed income portion of a portfolio.
- Exposure to straight perpetual preferred shares should be limited to 10% of a portfolio for a conservative investor and no more than 35% of a portfolio for an aggressive investor.

### The Range of Preferred Shares

Preferred shares vary depending on credit risk as well as interest rate risk. The chart below identifies the various types of preferred shares and their ranking with respect to interest rate risk and credit risk.



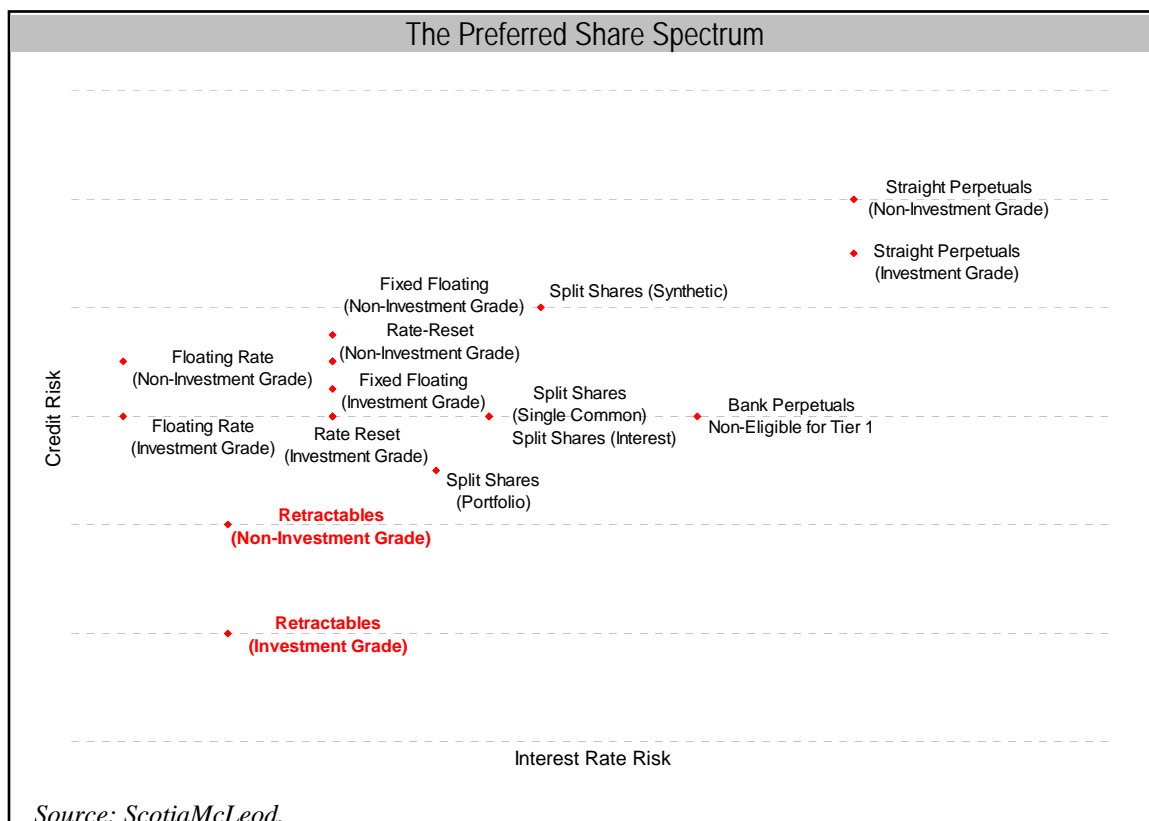
Credit Ratings

Since credit risk is a key characteristic when investing in preferred shares it is important to understand how the various credit ratings compare to bond ratings. The term “investment grade” refers to a preferred share issued by a company with strong credit quality and stable earnings that would be comparable to a bond rated ‘BBB-’ or higher. Investment grade preferred shares are designated a rating of P-1 or P-2 by major credit rating agencies such as Dominion Bond Rating Service (DBRS) or Standard & Poor’s (S&P). Companies with preferred credit ratings in the P-3(H) category or lower are considered “non-investment” grade by virtue of their weaker balance sheets and potentially volatile earnings. Non-investment grade preferred shares compare to bonds rated ‘BB+’ or lower by credit rating agencies. Below is a table which lists the various credit ratings and the equivalent bond rating.

Preferred Share Credit Ratings			
S&P Global Preferred Share Scale	S&P Preferred Share Scale	DBRS Preferred Share Scale	Quality
AA	P-1 (High)	Pfd-1 (high)	Superior
AA-	P-1	Pfd-1	
A+	P-1	Pfd-1	
A	P-1 (Low)	Pfd-1 (Low)	
A-	P-1 (Low)	Pfd-1 (Low)	
BBB+	P-2 (High)	Pfd-2 (High)	Satisfactory
BBB	P-2	Pfd-2	
BBB-	P-2 (Low)	Pfd-2 (Low)	
BB+	P-3 (High)	Pfd-3 (High)	Adequate
BB	P-3	Pfd-3	
BB-	P-3 (Low)	Pfd-3 (low)	
B+	P-4 (High)	Pfd-4 (High)	Speculative
B	P-4	Pfd-4	
B-	P-4 (Low)	Pfd-4 (Low)	
CCC+	P-5 (High)	Pfd-5 (High)	Highly Speculative
CCC	P-5	Pfd-5	
CCC-	P-5 (Low)	Pfd-5 (Low)	
CC	CC	Pfd-5 (Low)	
C+	C	Pfd-5 (Low)	
C	C	Pfd-5 (Low)	
C-	C	Pfd-5 (Low)	
D	D	D	In Arrears

*Source: DBRS; S&P*

## Retractable Preferred Shares



**Description:** Retractable preferred shares include a feature that allows the holder to force the company to redeem the shares at par value on a specific date. Some issues are referred to as hard retractables - meaning the issuer must pay cash upon retraction. There are also soft retractables which give the issuer the option of repaying the par value in cash or in common shares. The flexible payment option can result in a stronger balance sheet for the issuer which may lead to a favourable rating from credit rating agencies. This optionality gives the issuer the right to pay the preferred retraction in stock instead of cash if it falls into financial hardship. In the past, most issuers have redeemed this type of preferred share for cash rather than common stock. Investment grade issuers, will more often redeem their preferreds for cash rather than issue new common stock which may dilute earnings per share. The retraction feature is considered very attractive by investors as these preferred shares have a definitive maturity date and investors can therefore estimate future cash flows. In addition, this is the type of preferred share which most closely resembles bonds.

**Redemption:** The issuer may redeem retractable preferred shares for cash or for common shares, depending on the terms of the issue, on/after the various redemption dates. The redemption date(s) may either be on or before the retraction date. Often, when there is a substantial amount of time between redemption and retraction dates, the early redemption price is at a premium that declines each year as the retraction date approaches.

**Retraction:** On this date the holder can force the issuer to pay the par value of the preferred share. With respect to soft retractables a payment in the form of common shares is typically at 95% of the weighted average trading range over the previous 20 days, subject to a minimum price. For example, an investor who holds 100 preferred shares with a \$25 par value and the average trading price for the common stock is \$50, will receive 0.526 ( $\$25/0.95*\$50$ ) common shares for each preferred. This discount is intended to compensate the investor for the transaction costs of selling the shares in the secondary market and generating cash. The retraction date usually follows the redemption date by a number of days that is specific to each issue. If there is a substantial difference between the yield to redemption and yield to retraction, an investor should look at the lowest yield as it will be the most conservative return estimate.

**Advantages:** The advantages of holding retractable preferred shares pertain to the fact that these structures have a defined maturity date on which the investor is assured of a return of their principal. In addition, this type of preferred share is less interest rate sensitive as it has a shorter duration than those preferred shares which lack a maturity date.

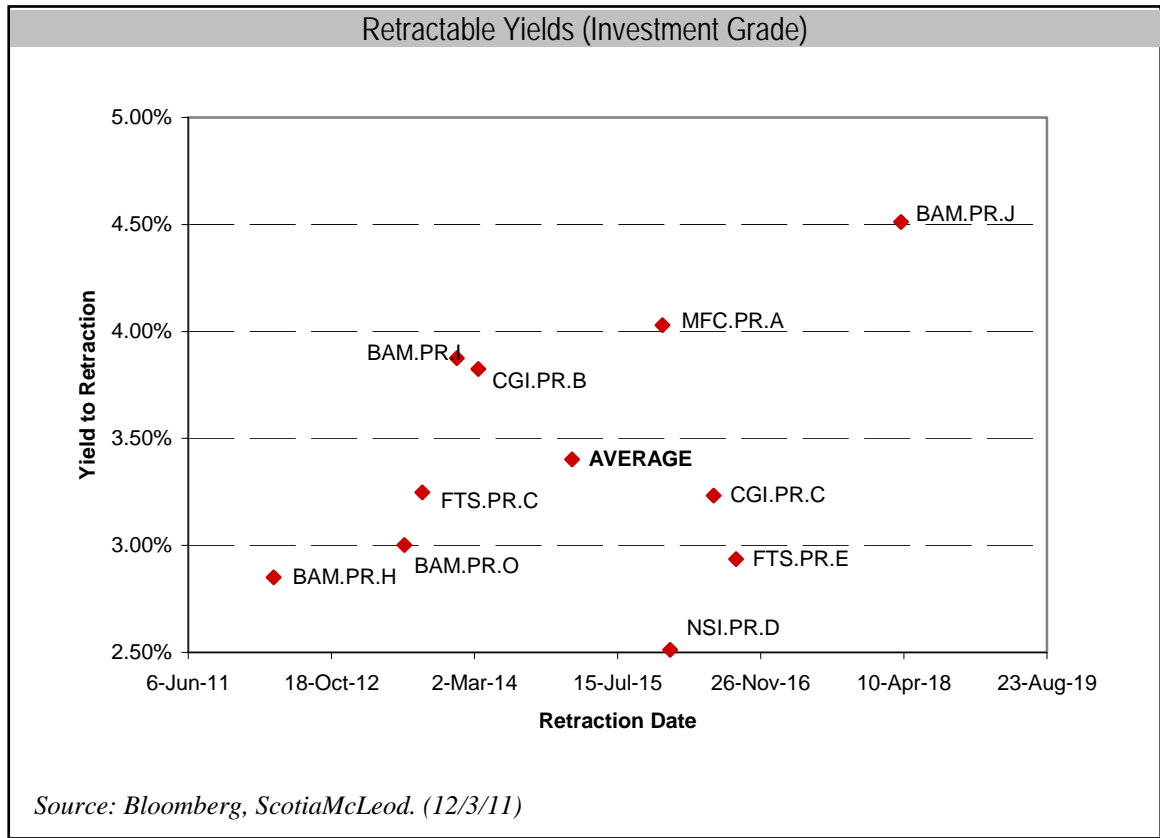
**Risks:** The most prevalent risk is early call risk, as issuers usually have the ability to redeem these shares earlier than the retraction date forcing the investor to re-invest at prevailing market rates. Additionally, the value of any preferred share will vary with the general level of interest rates as prices will move inversely to interest rate movements.

**What's New:** This sector of the preferred share market is shrinking as many issuers are taking advantage of early call dates and redeeming outstanding preferred shares. During 2011, 28.2 million (worth \$725.9 million) retractable preferred shares were redeemed, all at a premium. TD Bank redeemed its two outstanding preferred shares (TD.PR.M & N) and following a shareholder vote, DundeeWealth was able to redeem Series 1 (DW.PR.A) at a price of \$26.50.

Of the retractable preferred shares still outstanding in the market many can be called at the issuers' option within 30 days notice at prices below where the securities are trading in the market. Based on the current low yield environment which enables issuers to call their retractable preferred shares and re-issue at a lower dividend rate it is likely that we will see additional retractable preferred shares being redeemed in the future.

Retractable Investment Grade Yield Commentary

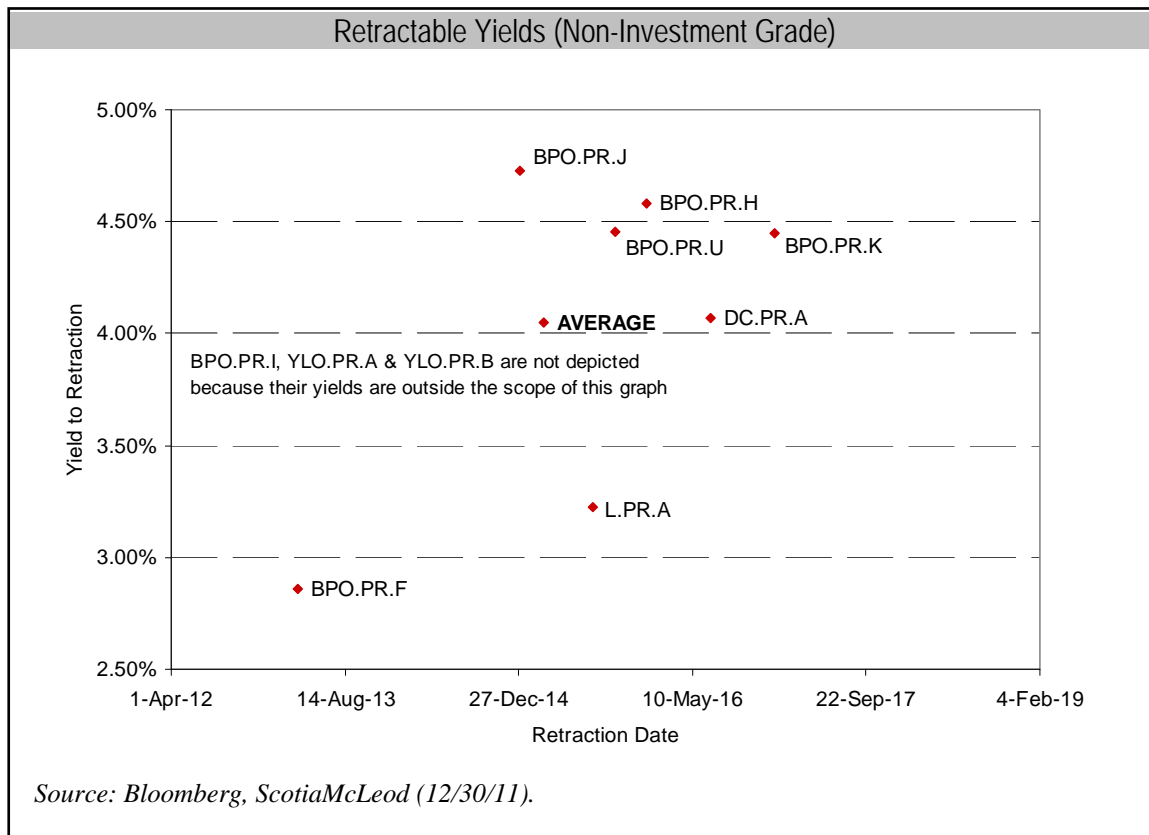
This graph depicts where individual investment grade retractable preferred shares trade in relation to each other based on their yield to retraction. The yields indicated on the chart reflect the return that investors would capture should the issuers leave these issues outstanding until the retraction date. When choosing which retractable to purchase the yield to worst must always be considered, which is listed in the Retractable Table on page 21 as an early redemption may deliver a significantly lower return than anticipated.



**Recommendations:** At this time, retractable preferred shares seem fairly expensive as most issues are now callable and the lowest yield (either yield to retraction or yield to worst call) is either negligible or negative. Therefore, the only retractable that could be considered for a portfolio is Manulife Financial Series 1 (MFC.PR.A) which has a yield to retraction/redemption of 4.03%. Please note that these recommendations are time and price sensitive. Contact your ScotiaMcLeod advisor for a current list of recommendations.

Retractable Non-Investment Grade Yield Commentary

Looking at the graph which displays how the various non-investment grade retractables trade in relation to one another, it is evident that overall the longer the term the higher the return. Additionally, it appears that Loblaw Series A (L.PR.A) is relatively expensive. The Brookfield Properties preferred shares are offering a higher yield which can be attributed to its abundance of issues outstanding as well as its sector exposure to commercial real estate in New York - a sector which continues to be volatile. These investments should only be considered for investors who have a moderate to high risk tolerance and have adequate assets to widely diversify their portfolio.



## Retractable Preferred Share Table

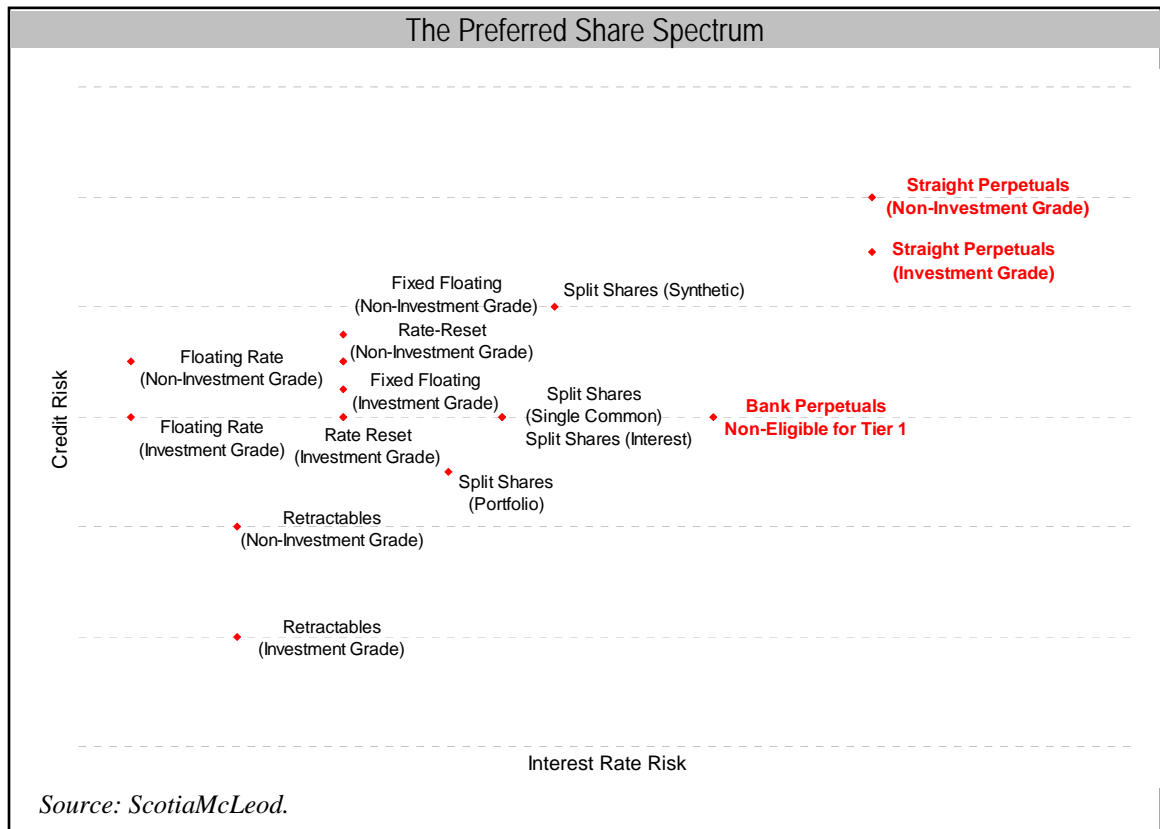
Issuer Investment Grade (P1-P2)	TSE Symbol	RATING		Price		RETRACTION			REDEMPTION		Yield to Worst
		DBRS	S&P	Dec 30/11	Div	Date	Price	Pre-tax YTR	Worst Case Call Date	Call Price	
Brookfield Asset 5.00% S 21	BAM.PR.O	Pfd-2L	P-2	\$25.75	\$1.250	30-Jun-13	\$25.00	3.00%	30-Jun-13	\$25.00	3.00%
Brookfield Asset 5.40% S 12	BAM.PR.J	Pfd-2L	P-2	\$26.23	\$1.350	31-Mar-18	\$25.00	4.51%	31-Mar-18	\$25.00	4.51%
Brookfield Asset 5.50% S 11	BAM.PR.I	Pfd-2L	P-2	\$25.80	\$1.375	31-Dec-13	\$25.00	3.88%	3-Feb-12	\$25.25	-25.95%
Brookfield Asset 5.75% S 10	BAM.PR.H	Pfd-2L	P-2	\$25.20	\$1.438	30-Mar-12	\$25.00	2.85%	3-Feb-12	\$25.00	-6.69%
CDN Genl. Invest. 3.9% Ser 3	CGI.PR.C	Pfd-1L	N/A	\$25.75	\$0.975	15-Jun-16	\$25.00	3.23%	15-Jun-15	\$25.00	3.06%
CDN Genl. Invest. 4.65% Ser 2	CGI.PR.B	Pfd-1L	N/A	\$25.51	\$1.163	15-Mar-14	\$25.00	3.82%	15-Mar-12	\$25.25	0.66%
Fortis Inc. 4.90% Series E	FTS.PR.E	Pfd-2L	P-2	\$27.25	\$1.225	1-Sep-16	\$25.00	2.94%	1-Jun-13	\$25.75	0.91%
Fortis Inc. 5.45% Ser. C	FTS.PR.C	Pfd-2L	P-2	\$26.02	\$1.363	1-Sep-13	\$25.00	3.25%	3-Feb-12	\$25.50	-18.04%
Manulife 4.10% Ser. 1	MFC.PR.A	Pfd-2H	P-2 (H)	\$25.12	\$1.025	19-Dec-15	\$25.00	4.03%	19-Jun-15	\$25.00	4.02%
N-Scotia Pwr. 1st. 5.90% Ser. D	NSI.PR.D	Pfd-2L	P-2 (L)	\$28.20	\$1.475	15-Jan-16	\$25.00	2.51%	15-Oct-15	\$25.00	2.31%
<b>Non-Investment Grade (P3 - P4)</b>											
Brookfield 5.00% Ser. J	BPO.PR.J	Pfd-3H	P-3 (H)	\$25.22	\$1.250	30-Dec-14	\$25.00	4.73%	30-Jun-14	\$25.00	4.68%
Brookfield 5.20% Ser. I	BPO.PR.I	Pfd-3H	P-3 (H)	\$25.40	\$1.300	31-Mar-12	\$25.00	-5.68%	3-Feb-12	\$25.00	-18.32%
Brookfield 5.20% Ser. K	BPO.PR.K	Pfd-3H	P-3 (H)	\$25.86	\$1.300	31-Dec-16	\$25.00	4.45%	30-Dec-15	\$25.00	4.29%
Brookfield 5.25% U.S.\$ G	BPO.PR.U	Pfd-3H	P-3 (H)	\$25.71	\$1.313	30-Sep-15	\$25.00	4.46%	30-Jun-14	\$25.00	4.10%
Brookfield 5.75% Ser. H	BPO.PR.H	Pfd-3H	P-3 (H)	\$26.09	\$1.438	31-Dec-15	\$25.00	4.58%	31-Dec-12	\$25.67	4.01%
Brookfield 6% Ser. F	BPO.PR.F	Pfd-3H	P-3 (H)	\$25.98	\$1.500	31-Mar-13	\$25.00	2.86%	3-Feb-12	\$25.25	-34.77%
Dundee Corp. Ser. 1 5.00%	DC.PR.A	Pfd-3	P-3	\$25.98	\$1.250	30-Jun-16	\$25.00	4.07%	30-Jun-14	\$25.50	4.15%
Loblaw 5.95% Ser. A	L.PR.A	Pfd-3	P-3 (H)	\$27.57	\$1.488	30-Jul-15	\$25.00	3.22%	30-Jul-13	\$25.75	1.89%
Yellow Media Inc. Ser 1. 4.25%	YLO.PR.A	Pfd-4L	P-4 (L)	\$1.82	\$1.063	31-Dec-12	\$25.00	412.88%	31-Mar-12	\$25.00	6568.25%
Yellow Media Inc. Ser. 2 5.00%	YLO.PR.B	Pfd-4L	P-4 (L)	\$2.02	\$1.250	30-Jun-17	\$25.00	80.09%	30-Jun-16	\$25.00	90.57%

**Worst case call date** is the date which generates the lowest yield if the issuer redeems the preferred share.

**Retraction date** is when the holder of the preferred can force the issuer to redeem the preferred for the par value.

Source: Bloomberg, ScotiaMcLeod

## Straight Perpetual Preferred Shares



**Description:** Straight perpetual preferred shares have no maturity date. These structures pay a fixed dividend for as long as they remain outstanding. However, the issuer has the option of redeeming these while the holder has no retraction rights. If a perpetual preferred is not redeemed by the issuer, investors have the option of selling them in the secondary market or holding them indefinitely.

**Redemption:** Perpetuals are redeemable at the option of the issuer. Issuers like this form of financing as it gives them the ability to pay a fixed dividend indefinitely without worrying about refinancing levels. That being said, there are other factors which may entice an issuer to either call the preferred shares or leave them outstanding, such as the most recent Basel III requirements.

**Advantages:** This type of preferred share offers investors the highest yield and a stable form of tax-efficient dividend income. Additionally, this class of preferred share may be used to profit from anticipated interest rate or credit spread movements. Due to their long duration, perpetual preferred shares will rise in value as credit spreads and interest rates decline. However, the opposite will happen when the Bank of Canada is in rate hiking mode or when credit spreads widen.

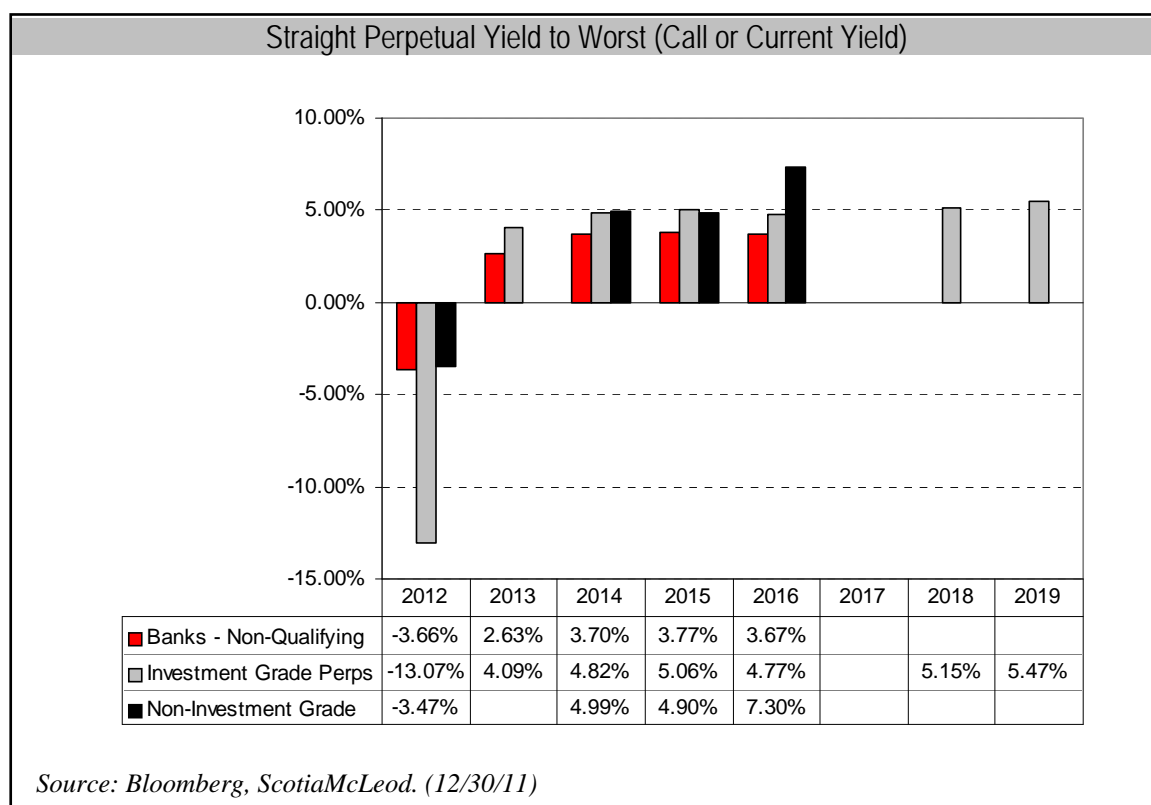
**Risks:** Compared to all other classes of preferred shares (at a given credit rating) the perpetuals carry the greatest price volatility as these structures are very sensitive to fluctuations in interest rates and credit spreads. This type of preferred share is most comparable to corporate long bonds (30-year). This characteristic does not rule them out as a good choice in a diversified portfolio of preferred shares as they often offer attractive returns to compensate investors for taking on the risk of holding a security in perpetuity. However, investors who are not comfortable holding 30-year corporate bonds should not invest in straight perpetual preferred shares.

**What's New:** Following further clarification surrounding Basel III and which securities would be eligible as Tier 1 capital the perpetual preferred shares have traded in two distinct groups. The bank issues which are not convertible into common shares (non-qualifying) started trading based on getting redeemed prior to 2022 while the remaining perpetual preferred shares traded based on a longer duration. It should be noted, that both the maturity schedule of the company as well as the general level of interest rates will affect when and if the various non-qualifying bank perpetuals get called. CIBC redeemed its Series 30 perpetual (CM.PR.H) at a price of \$25.75 and has also announced the redemption of its Series 31 (CM.PR.I) at a price of \$26.00 on January 31, 2012.

**Recommendations:** These issues should be purchased by investors who already own a diversified portfolio of preferred shares or those searching for income from a well known issuer. This caveat is due to the higher volatility in the prices of these preferred shares (relative to fixed term preferred shares) during periods of rising interest rates or widening credit spreads. Investors can also look towards those bank perpetuals which will likely be redeemed as they are less volatile and have a shorter duration, however, beware of early call risk.

### Straight Perpetual Yield Commentary

The graph below depicts the average yield to worst for each year across the various groups of straight perpetual preferred shares. Yield to worst calculation is based on the lower of: (1) Current yield and (2) Yield-to-worst and is considered the most conservative return evaluation. It is not advised to purchase any perpetual preferred shares which have a yield to worst call in 2012 as they are delivering a negative return as they are trading above their respective upcoming call prices. However, moving into securities that have a longer potential call date, investors are able to pick up a higher return.



Non-Qualifying Bank Perpetual Preferred Share Table												
Issuer Investment Grade (P1-P2)	TSE Symbol	RATING		Price Dec 31/11	Div	Current Yield	REDEMPTION			2022 REDEMPTION Potential		
		DBRS	S&P				Worst Call Date	Call Price	Yield to Worst	Call Price	Call Date	Yield to Call
BMO 4.50% Ser. 13	BMO.PR.J	Pfd-1L	P-2 (H)	\$26.30	\$1.125	4.28%	25-Feb-12	\$26.00	-0.55%	\$25.00	31-Jan-22	3.87%
BMO 5.25% Ser. 14	BMO.PR.K	Pfd-1L	P-2 (H)	\$26.88	\$1.313	4.88%	25-Nov-12	\$26.00	1.86%	\$25.00	31-Jan-22	4.32%
BMO 5.30% Ser. 5	BMO.PR.H	Pfd-1L	P-2 (H)	\$26.14	\$1.325	5.07%	25-Feb-13	\$25.00	1.78%	\$25.00	31-Jan-22	4.73%
BMO 5.80% Ser. 15	BMO.PR.L	Pfd-1L	P-2 (H)	\$27.29	\$1.450	5.31%	25-May-13	\$26.00	2.41%	\$25.00	31-Jan-22	4.66%
BNS 4.50% Ser. 14	BNS.PR.L	Pfd-1L	P-1 (L)	\$25.94	\$1.125	4.34%	26-Apr-16	\$25.00	3.50%	\$25.00	31-Jan-22	4.01%
BNS 4.50% Ser. 15	BNS.PR.M	Pfd-1L	P-1 (L)	\$25.76	\$1.125	4.37%	26-Jul-16	\$25.00	3.72%	\$25.00	31-Jan-22	4.10%
BNS 4.80% Ser. 13	BNS.PR.K	Pfd-1L	P-1 (L)	\$25.75	\$1.200	4.66%	27-Apr-12	\$25.50	0.65%	\$25.00	31-Jan-22	4.40%
BNS 5.25% Ser. 12	BNS.PR.J	Pfd-1L	P-1 (L)	\$26.27	\$1.313	5.00%	28-Oct-13	\$25.00	2.21%	\$25.00	31-Jan-22	4.58%
BNS 5.25% Ser. 16	BNS.PR.N	Pfd-1L	P-1 (L)	\$26.52	\$1.313	4.95%	29-Jan-13	\$26.00	2.84%	\$25.00	31-Jan-22	4.46%
BNS 5.60% Ser. 17	BNS.PR.O	Pfd-1L	P-1 (L)	\$26.82	\$1.400	5.22%	28-Apr-13	\$26.00	2.69%	\$25.00	31-Jan-22	4.65%
CIBC 4.50% Ser. 32	CM.PR.J	Pfd-1L	P-2 (H)	\$26.02	\$1.125	4.32%	30-Apr-12	\$26.00	3.27%	\$25.00	31-Jan-22	3.97%
CIBC 4.70% Ser. 31	CM.PR.I	Pfd-1L	P-2 (H)	\$25.95	\$1.175	4.53%	30-Jan-12	\$26.00	3.36%			
CIBC 5.50% Ser. 18	CM.PR.P	Pfd-1L	P-2 (H)	\$25.69	\$1.375	5.35%	31-Oct-12	\$25.00	1.65%	\$25.00	31-Jan-22	5.10%
HSBC 5.0% Ser. D	HSB.PR.D	Pfd-2H	P-1 (L)	\$25.72	\$1.250	4.86%	31-Dec-14	\$25.00	4.00%	\$25.00	31-Jan-22	4.62%
HSBC 5.10% Ser. C	HSB.PR.C	Pfd-2H	P-1 (L)	\$25.70	\$1.275	4.96%	30-Jun-12	\$25.50	3.60%	\$25.00	31-Jan-22	4.73%
National Bank 4.85% S.16	NA.PR.L	Pfd-2	P-2 (H)	\$25.82	\$1.213	4.70%	15-May-12	\$25.50	3.21%	\$25.00	31-Jan-22	4.45%
National Bank 5.85% S.15	NA.PR.K	Pfd-2	P-2 (H)	\$26.00	\$1.463	5.63%	3-Feb-12	\$25.25	-21.16%	\$25.00	31-Jan-22	5.35%
National Bank 6.00% S.20	NA.PR.M	Pfd-2	P-2 (H)	\$27.27	\$1.500	5.50%	15-May-13	\$26.00	2.73%	\$25.00	31-Jan-22	4.86%
Royal Bank 4.45% Ser. AA	RY.PR.A	Pfd-1L	P-1 (L)	\$25.97	\$1.113	4.28%	24-May-14	\$25.25	3.40%	\$25.00	31-Jan-22	3.98%
Royal Bank 4.45% Ser. AF	RY.PR.F	Pfd-1L	P-1 (L)	\$25.85	\$1.113	4.30%	24-May-16	\$25.00	3.74%	\$25.00	31-Jan-22	4.03%
Royal Bank 4.50% Ser. AD	RY.PR.D	Pfd-1L	P-1 (L)	\$25.92	\$1.125	4.34%	24-Feb-16	\$25.00	3.68%	\$25.00	31-Jan-22	4.05%
Royal Bank 4.50% Ser. AE	RY.PR.E	Pfd-1L	P-1 (L)	\$25.94	\$1.125	4.34%	24-Feb-16	\$25.00	3.66%	\$25.00	31-Jan-22	4.04%
Royal Bank 4.50% Ser. AG	RY.PR.G	Pfd-1L	P-1 (L)	\$25.89	\$1.125	4.35%	24-May-16	\$25.00	3.75%	\$25.00	31-Jan-22	4.06%
Royal Bank 4.60% Ser. AC	RY.PR.C	Pfd-1L	P-1 (L)	\$25.89	\$1.150	4.44%	24-Nov-15	\$25.00	3.77%	\$25.00	31-Jan-22	4.27%
Royal Bank 4.70% Ser. AB	RY.PR.B	Pfd-1L	P-1 (L)	\$26.12	\$1.175	4.50%	24-Aug-12	\$25.75	3.16%	\$25.00	31-Jan-22	4.15%
Royal Bank 5.65% Ser. AH	RY.PR.H	Pfd-1L	P-1 (L)	\$27.28	\$1.413	5.18%	24-May-13	\$26.00	2.28%	\$25.00	31-Jan-22	4.51%
TD Bank 4.85% Ser. O	TD.PR.O	Pfd-1L	P-1 (L)	\$26.28	\$1.213	4.61%	3-Feb-12	\$25.75	-12.64%	\$25.00	31-Jan-22	4.33%
TD Bank 5.25% Ser. P	TD.PR.P	Pfd-1L	P-1 (L)	\$26.65	\$1.313	4.92%	1-Nov-12	\$26.00	3.10%	\$25.00	31-Jan-22	4.55%
TD Bank 5.60% Ser. Q	TD.PR.Q	Pfd-1L	P-1 (L)	\$27.12	\$1.400	5.16%	31-Jan-13	\$26.00	2.23%	\$25.00	31-Jan-22	4.67%
TD Bank 5.60% Ser. R	TD.PR.R	Pfd-1L	P-1 (L)	\$27.24	\$1.400	5.14%	30-Apr-13	\$26.00	2.47%	\$25.00	31-Jan-22	4.61%
<b>Non-Investment Grade (P3-P4)</b>												
Laurentian Bank 6% Ser. 9	LB.PR.D	Pfd-3L	P-2 (L)	\$25.79	\$1.500	5.82%	3-Feb-12	\$25.00	-37.04%	\$25.00	31-Jan-22	5.58%
Laurentian Bank 5.25% Ser. 10	LB.PR.E	Pfd-3L	P-2 (L)	\$25.30	\$1.313	5.19%	15-Jun-13	\$25.00	4.63%	\$25.00	31-Jan-22	5.09%

Source: Bloomberg, ScotiaMcLeod.

## Straight Perpetual Preferred Share Table

Issuer Investment Grade (P1-P2)	TSE Symbol	RATING		Price		Current Yield	REDEMPTION		Yield to Worst
		DBRS	S&P	Dec 31/11	Div		Worst Call Date	Call Price	
BMO 5.95% Ser. 10 U.S.\$	⊙ BMO.PR.V	Pfd-1L /*-	P-2 (H)	\$25.22	\$1.488	5.90%	25-Feb-12	\$25.00	4.69%
Brookfield Asset A Ser. 17	BAM.PR.M	Pfd-2L	P-2	\$23.47	\$1.188	5.06%	31-Dec-15	\$25.00	6.54%
Brookfield Asset A Ser. 18	BAM.PR.N	Pfd-2L	P-2	\$23.33	\$1.188	5.09%	30-Jun-16	\$25.00	6.51%
CDN Util. 5.80% Ser. W	CU.PR.A	Pfd-2H	P-2 (H)	\$25.90	\$1.450	5.60%	3-Feb-12	\$25.25	-23.41%
CDN Util. 6.00% Ser. X	CU.PR.B	Pfd-2H	P-2 (H)	\$26.02	\$1.500	5.76%	3-Feb-12	\$25.25	-41.54%
CIBC 5.40% Ser. 29	⊙ CM.PR.G	Pfd-1L /*-	N/A	\$25.55	\$1.350	5.28%	30-Apr-12	\$25.50	3.66%
CIBC 5.60% Ser. 27	⊙ CM.PR.E	Pfd-1L /*-	P-2	\$25.37	\$1.400	5.52%	03-Feb-12	\$25.25	-5.06%
CIBC 5.75% Ser. 26	⊙ CM.PR.D	Pfd-1L /*-	P-2	\$25.52	\$1.438	5.63%	03-Feb-12	\$25.25	-12.56%
CU Inc. 4.60% Ser. 1	CIU.PR.A	Pfd-2H	P-2 (L)	\$24.83	\$1.150	4.63%	1-Jun-16	\$25.00	4.89%
E-L Financial 4.75% Ser. 2	ELF.PR.G	N/A	P-2 (H)	\$21.40	\$1.188	5.55%	17-Oct-15	\$25.00	9.28%
E-L Financial Corp. 5.30%	ELF.PR.F	N/A	P-2 (H)	\$23.15	\$1.325	5.72%	17-Oct-13	\$25.00	9.83%
Enbridge 5.50% Ser. A	ENB.PR.A	Pfd-2L	P-2	\$26.31	\$1.375	5.23%	3-Feb-12	\$25.00	-58.49%
Fortis Inc. 4.90% Ser. F	FTS.PR.F	Pfd-2L	P-2	\$25.75	\$1.225	4.76%	1-Dec-15	\$25.00	4.20%
Great West 4.5% Ser. I	GWO.PR.I	Pfd-1L	P-1 (L)	\$22.56	\$1.125	4.99%	30-Jun-15	\$25.00	7.77%
Great West 4.85% Ser. H	GWO.PR.H	Pfd-1L	P-1 (L)	\$23.92	\$1.213	5.07%	30-Sep-14	\$25.00	6.64%
Great West 5.20% Ser. G	GWO.PR.G	Pfd-1L	P-1 (L)	\$25.16	\$1.300	5.17%	31-Dec-13	\$25.00	4.92%
Great West 5.65% Ser. L	GWO.PR.L	Pfd-1L	P-1 (L)	\$25.81	\$1.413	5.47%	30-Dec-18	\$25.00	5.12%
Great West 5.80% Ser. M	GWO.PR.M	Pfd-1L	P-1 (L)	\$25.60	\$1.450	5.66%	31-Mar-19	\$25.00	5.42%
Great West 5.90% Ser. F	GWO.PR.F	Pfd-1L	P-1 (L)	\$25.35	\$1.475	5.82%	3-Feb-12	\$25.25	1.93%
IGM Financial Inc. 5.90% Ser. B	IGM.PR.B	Pfd-2H	P-1 (L)	\$26.19	\$1.475	5.63%	30-Dec-16	\$25.75	4.03%
Industrial Alliance 4.60%	IAG.PR.A	Pfd-2H	P-1 (L)	\$23.69	\$1.150	4.85%	31-Mar-15	\$25.00	6.45%
Industrial Alliance 5.90% Ser. F	IAG.PR.F	Pfd-2H	P-1 (L)	\$25.60	\$1.475	5.76%	31-Mar-19	\$25.00	5.52%
Industrial Alliance 6.00% Ser. E	IAG.PR.E	Pfd-2H	P-1 (L)	\$25.90	\$1.500	5.79%	31-Dec-18	\$25.00	5.40%
Manulife Financial 4.50% S. 3	MFC.PR.C	Pfd-2H	P-2 (H)	\$21.74	\$1.125	5.17%	19-Mar-15	\$25.00	9.37%
Manulife Financial 4.65% S. 2	MFC.PR.B	Pfd-2H	P-2 (H)	\$22.00	\$1.163	5.28%	19-Mar-14	\$25.00	11.03%
Power Corp. 5.00% Ser.D	POW.PR.D	Pfd-2H	P-2 (H)	\$24.63	\$1.250	5.08%	15-Oct-14	\$25.00	5.55%
Power Corp. 5.35% Ser.B	POW.PR.B	Pfd-2H	P-2 (H)	\$25.22	\$1.338	5.30%	3-Feb-12	\$25.00	-9.85%
Power Corp. 5.60% Ser.A	POW.PR.A	Pfd-2H	P-2 (H)	\$25.11	\$1.400	5.58%	3-Feb-12	\$25.00	-3.26%
Power Corp. 5.80% Ser.C	POW.PR.C	Pfd-2H	P-2 (H)	\$25.21	\$1.450	5.75%	3-Feb-12	\$25.00	-9.05%
Power Finl. 4.95% Ser. K	PWF.PR.K	Pfd-1L	P-1 (L)	\$24.60	\$1.238	5.03%	31-Oct-14	\$25.00	5.94%
Power Finl. 5.10% Ser. L	PWF.PR.L	Pfd-1L	P-1 (L)	\$25.30	\$1.275	5.04%	31-Oct-15	\$25.00	5.03%
Power Finl. 5.25% Ser. E	PWF.PR.F	Pfd-1L	P-1 (L)	\$25.30	\$1.313	5.19%	3-Feb-12	\$25.00	1.20%
Power Finl. 5.50% Ser. D	PWF.PR.E	Pfd-1L	P-1 (L)	\$25.36	\$1.375	5.42%	30-Apr-13	\$25.00	5.20%
Power Finl. 5.75% Ser. H	PWF.PR.H	Pfd-1L	P-1 (L)	\$25.50	\$1.438	5.64%	3-Feb-12	\$25.00	-27.89%
Power Finl. 5.80% Ser. O	PWF.PR.O	Pfd-1L	P-1 (L)	\$26.50	\$1.450	5.47%	31-Oct-18	\$25.00	4.95%
Power Finl. 5.90% Ser. F	PWF.PR.G	Pfd-1L	P-1 (L)	\$25.64	\$1.475	5.75%	3-Feb-12	\$25.00	-15.68%
Power Finl. 6.00% Ser. I	PWF.PR.I	Pfd-1L	P-1 (L)	\$26.00	\$1.500	5.77%	3-Feb-12	\$25.25	-20.66%
Royal Bank 4.90% Ser. W	⊙ RY.PR.W	Pfd-1L /*-	P-1 (L)	\$25.70	\$1.225	4.77%	24-Feb-12	\$25.50	3.29%
Sun Life Fin. 4.45% Ser. 3	SLF.PR.C	Pfd-1L	P-2 (H)/*-	\$20.80	\$1.113	5.35%	29-Mar-15	\$25.00	10.74%
Sun Life Fin. 4.45% Ser. 4	SLF.PR.D	Pfd-1L	P-2 (H)/*-	\$20.85	\$1.113	5.34%	31-Dec-15	\$25.00	9.54%
Sun Life Fin. 4.50% Ser. 5	SLF.PR.E	Pfd-1L	P-2 (H)/*-	\$21.13	\$1.125	5.32%	30-Mar-16	\$25.00	8.95%
Sun Life Fin. 4.75% Ser. 1	SLF.PR.A	Pfd-1L	P-2 (H)/*-	\$22.15	\$1.188	5.36%	28-Mar-14	\$25.00	10.67%
Sun Life Fin. 4.80% Ser. 2	SLF.PR.B	Pfd-1L	P-2 (H)/*-	\$22.35	\$1.200	5.37%	30-Sep-14	\$25.00	9.29%
TransCanada 5.6% Ser. U	TCA.PR.X	Pfd-2L	P-2	\$52.22	\$2.800	5.36%	15-Oct-13	\$50.00	2.19%
TransCanada 5.6% Ser. Y	TCA.PR.Y	Pfd-2L	P-2	\$52.75	\$2.800	5.31%	5-Mar-14	\$50.00	2.57%
Westcoast 5.50% Ser. 7	W.PR.H	Pfd-2L	P-2 (H)	\$25.75	\$1.375	5.34%	15-Jan-13	\$25.00	2.41%
Westcoast 5.60% Ser. 8	W.PR.J	Pfd-2L	P-2 (H)	\$25.19	\$1.400	5.56%	3-Feb-12	\$25.00	-9.58%

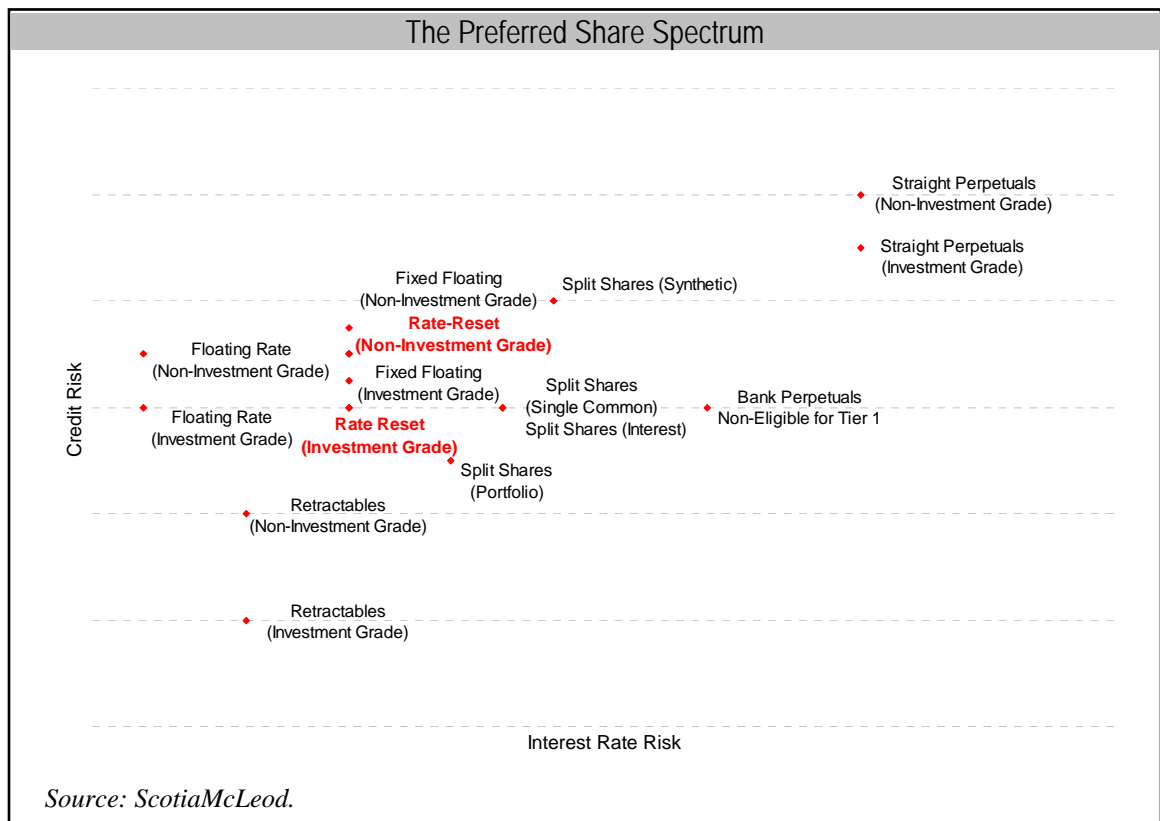
⊙ Convertible into Common Shares- Unlikely to be redeemed under Basel III regulations

## Non-Investment Grade (P3-P4)

Bombardier 6.25% Ser. 4	BBD.PR.C	Pfd-4	P-4	\$23.00	\$1.563	6.79%	3-Feb-12	\$25.00	142.29%
Co-operators Cl. E Ser. C 5.00%	CCS.PR.C	Pfd-3	P-2 (L)	\$22.55	\$1.250	5.54%	30-Jun-16	\$25.00	7.64%
CPI Preferred Equity Ltd 4.85% Ser 1	CZP.PR.A	Pfd-4	P-4 (L)	\$13.40	\$1.213	9.05%	28-Jun-16	\$25.00	21.22%
FirstService Corp. U\$ 7.00%	FSV.PR.U	N/A	N/A	\$24.76	\$1.750	7.07%	3-Feb-12	\$25.00	14.33%
G. Weston Ltd. 4.75% Ser.V	WN.PR.E	Pfd-3	P-3 (H)	\$24.25	\$1.188	4.90%	1-Jul-15	\$25.00	5.74%
G. Weston Ltd. 5.2% Ser.III	WN.PR.C	Pfd-3	P-3 (H)	\$25.23	\$1.300	5.15%	1-Jul-14	\$25.00	4.86%
G. Weston Ltd. 5.2% Ser.IV	WN.PR.D	Pfd-3	P-3 (H)	\$25.07	\$1.300	5.19%	1-Jul-14	\$25.00	5.13%
G. Weston Ltd. 5.8% Ser.I	WN.PR.A	Pfd-3	P-3 (H)	\$25.58	\$1.450	5.67%	3-Feb-12	\$25.00	-24.27%

Source: Bloomberg, ScotiaMcLeod.

## Rate Reset Preferred Shares



**Description:** This class of preferred share pays a fixed dividend until the reset date, which is typically also the call date. On that date, and every reset date thereafter, if the preferred share is not called by the issuer, the holder has two options.

1. Locking in a fixed dividend until the next reset date. This rate is at a predetermined spread over an equivalent term Government of Canada bond.
2. Exchanging to a floating rate preferred share. The floating rate is a quarterly dividend based on 3-month Government of Canada Treasury bills, plus the same spread as in option 1.

Investors have the option at each reset date, if the issue is not called, of switching back and forth between the two dividend options.

**Redemption:** These preferred shares are redeemable at the option of the issuer on every reset date at par value (\$25.00). Additionally, if the floating rate option is chosen, the floating rate preferred shares may also be called at the option of the issuer, usually at a premium price. Issues currently outstanding are callable at a price of \$25.50 at any time. Rate-resets are perpetual in nature and are not retractable by the holder.

**Advantages:** In exchange for having no maturity date, investors are rewarded with an attractive dividend rate which is re-set in-line with yields prevailing in the market on a periodic basis. Due to this factor, this structure has less interest rate risk than straight perpetual preferred shares.

**Risks:** The main risk of investing in rate reset preferred shares is that they are perpetual and the issuer will only redeem these structures if it is in their best interest. In the long term, investors in perpetual securities need to be very concerned about credit quality and the future prospects of the issuer, as there is no obligation to ever redeem the issue.

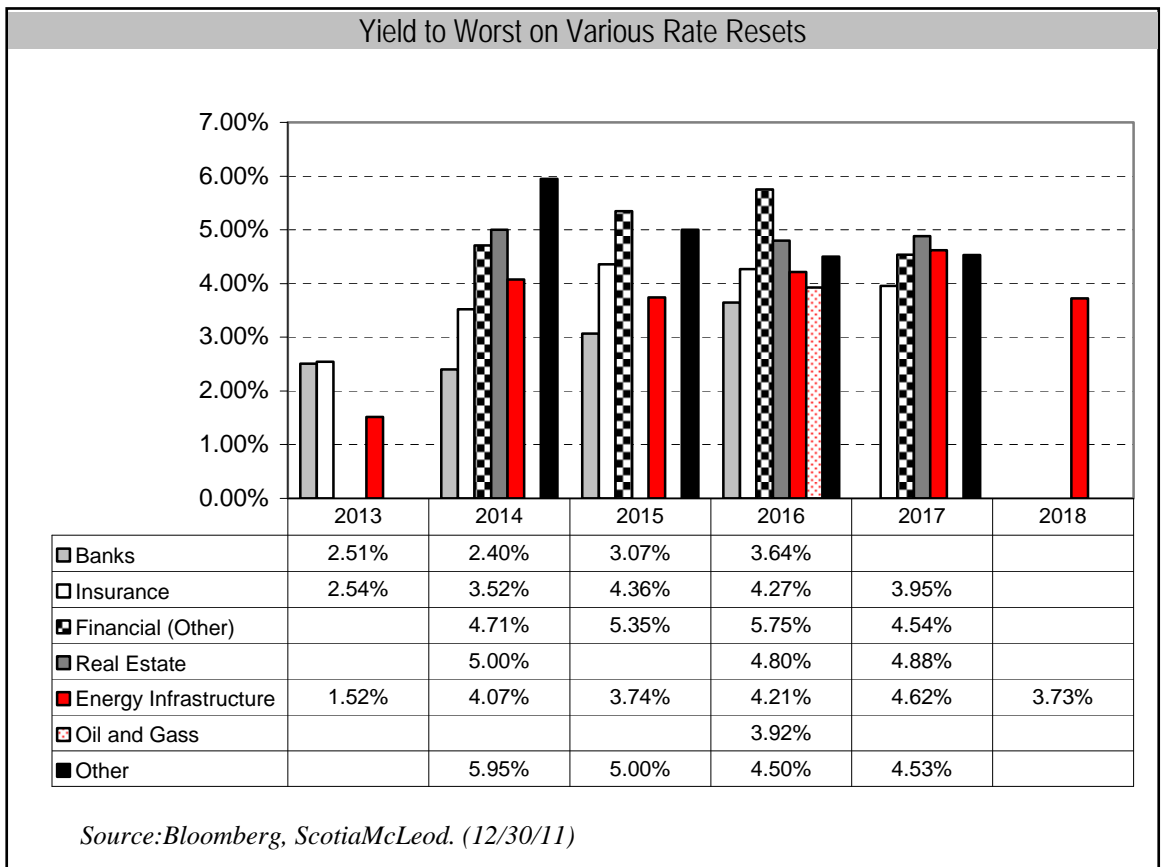
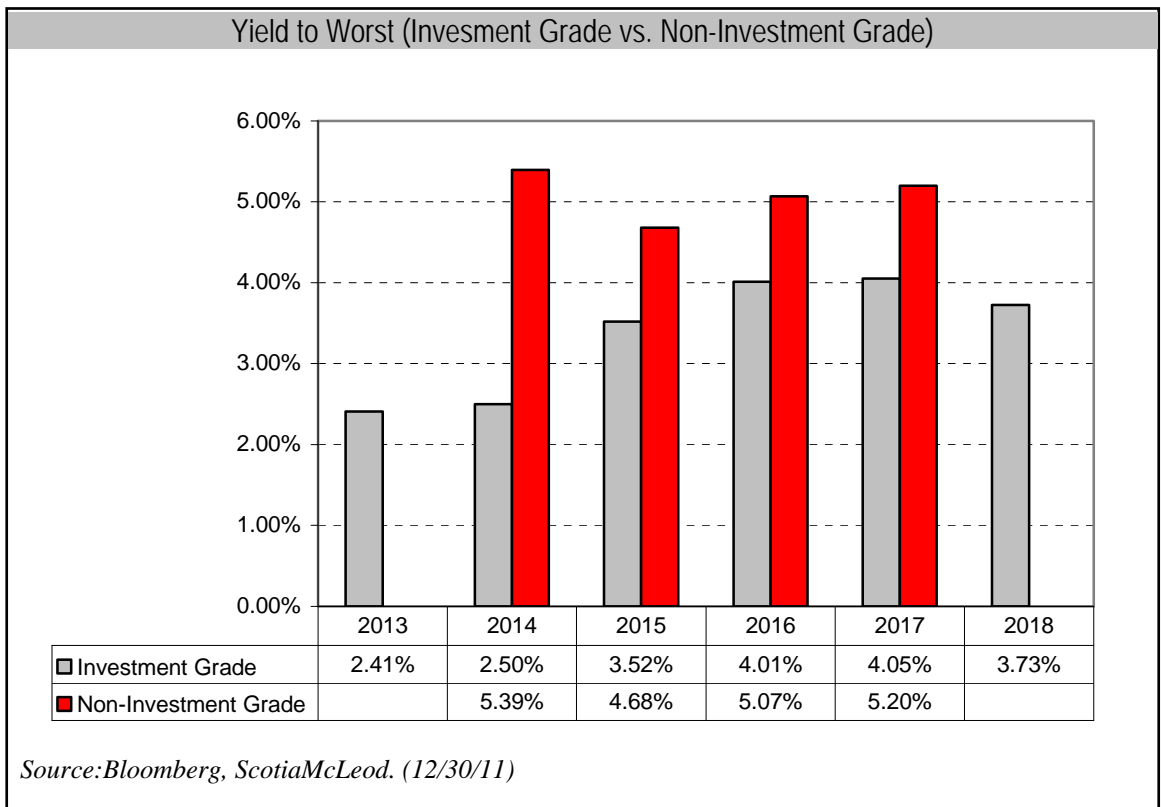
**Recommendations:** Our most recent recommendations for the rate reset category are the Bank of Nova Scotia 5.00% Series 20 (BNS.PR.Q) with a reset spread of 1.70%, Intact Financial Corp 4.20% Series 3 (IFC.PR.C) with a reset rate of Government of Canada 5-year bond yield + 2.66%, SunLife Financial Inc. 4.25% Series 12R (SLF.PR.I) with a reset rate of Government of Canada 5-year bond yield + 2.73% and Brookfield Asset Management 4.50% Series 26 (BAM.PR.T) with a reset rate of Government of Canada 5-year bond yield + 2.31%. Please note that these recommendations are time and price sensitive. Contact your ScotiaMcLeod advisor for a current list of recommendations.

**What's New:** Rate reset preferred shares have now become the largest type of preferred share on a market capitalization basis and made up approximately 99% of the new issues during the year. Some of the new issuers in the preferred share market this past year include: ReiCan REIT, Rona Inc, Bell Aliant Inc., Husky Energy Inc., Shaw Communications Inc. & Talisman Energy Inc. A list of all other rate resets preferred shares currently outstanding in the market can be found in the following tables.

At the end of February 2011, National Bank announced an offer to purchase all of its outstanding preferred shares of Series 21, 24 & 26 (all rate reset preferred shares). The offer prices were at a premium to where the shares were trading and offered investors an opportunity to liquidate their National Bank rate reset preferred shares at an attractive price. The tender offer was very successful with 13 million of the 20 million shares outstanding being tendered which equates to a value of approximately \$361 million being tendered.

### Rate Reset Yield Commentary

The following charts highlight the yield to worst among the various sectors in the rate reset space. When considering purchasing a rate reset preferred share it is important to look at the lower yield between current yield and yield to reset as well as the reset spread. As depicted in the chart below, the insurance rate resets are currently offering a yield pick-up of up to 1.00% over bank rate resets. Additionally, in general both energy infrastructure and oil and gas names tend to catch a better bid. With respect to investment grade credit versus non-investment grade credits, investment grade credit on average offer a higher yield the longer the reset/call date while the non-investment grade credits offer a much higher yield to compensate the investor for the additional risk they are taking on.



## Rate Reset Preferred Share Table

Issuer Investment Grade (P1-P2)	RATING			Price		Current Yield	REDEMPTION		
	TSE Symbol	DBRS	S&P	Dec 30/11	Div		Reset/Call Date	Yield to Reset	Reset Rate
Bank of Montreal 3.90% Ser 25	BMO.PR.Q	Pfd-1L	P-2 (H)	\$25.45	\$0.975	3.83%	25-Aug-16	3.59%	5-YR CAN +115 bp
Bank of Montreal 5.20% Ser 16	BMO.PR.M	Pfd-1L	P-2 (H)	\$26.10	\$1.300	4.98%	25-Aug-13	2.83%	5-YR CAN+165 bp
Bank of Montreal 5.40% Ser 23	BMO.PR.P	Pfd-1L	P-2 (H)	\$27.21	\$1.350	4.96%	25-Feb-15	2.66%	5-YR CAN+241 bp
Bank of Montreal 6.50% Ser 18	BMO.PR.N	Pfd-1L	P-2 (H)	\$27.52	\$1.625	5.90%	25-Feb-14	2.03%	5-YR CAN+383 bp
Bank of Montreal 6.50% Ser 21	BMO.PR.O	Pfd-1L	P-2 (H)	\$27.65	\$1.630	5.90%	25-May-14	2.25%	5-YR CAN+458 bp
BCE Inc. 4.15% Ser AK	BCE.PR.K	Pfd-3H	P-2(L)	\$25.03	\$1.038	4.15%	31-Dec-16	4.14%	5-YR CAN+188 bp
BNS 3.70% Ser. 32	BNS.PR.Z	Pfd-1L	P-1 (L)	\$24.95	\$0.925	3.71%	27-Jan-16	3.70%	5-YR CAN+134 bp
BNS 3.85% Ser. 30	BNS.PR.Y	Pfd-1L	P-1 (L)	\$25.25	\$0.963	3.81%	26-Apr-15	3.47%	5-YR CAN+100 bp
BNS 5.00% Ser. 18	BNS.PR.P	Pfd-1L	P-1 (L)	\$25.81	\$1.250	4.84%	26-Apr-13	2.28%	5-YR CAN+ 205 bp
BNS 5.00% Ser. 20	BNS.PR.Q	Pfd-1L	P-1 (L)	\$25.81	\$1.250	4.84%	26-Oct-13	3.01%	5-YR CAN+ 170 bp
BNS 5.00% Ser. 22	BNS.PR.R	Pfd-1L	P-1 (L)	\$25.92	\$1.250	4.82%	25-Jan-14	3.02%	5-YR CAN+ 188 bp
BNS 6.25% Ser. 26	BNS.PR.T	Pfd-1L	P-1 (L)	\$27.20	\$1.563	5.74%	24-Apr-14	2.19%	5-YR CAN+414 bp
BNS 6.25% Ser. 28	BNS.PR.X	Pfd-1L	P-1 (L)	\$27.25	\$1.563	5.73%	26-Apr-14	2.10%	5-YR CAN+446 bp
Brookfield Asset 4.50% S 26	BAM.PR.T	Pfd-2L	P-2	\$25.14	\$1.125	4.47%	31-Mar-17	4.40%	5-YR CAN+231 bp
Brookfield Asset 4.60% S 28	BAM.PR.X	Pfd-2L	P-2	\$24.90	\$1.150	4.62%	30-Jun-17	4.71%	5-YR CAN+ 180 bp
Brookfield Asset 4.80% S 30	BAM.PR.Z	Pfd-2L	P-2	\$25.30	\$1.200	4.74%	31-Dec-17	4.59%	5-YR CAN+ 296 bp
Brookfield Asset 5.40% S 24	BAM.PR.R	Pfd-2L	P-2	\$26.17	\$1.350	5.16%	30-Jun-16	4.28%	5-YR CAN+230 bp
Brookfield Asset 7.00% S 22	BAM.PR.P	Pfd-2L	P-2	\$27.41	\$1.750	6.38%	30-Sep-14	3.25%	5-YR CAN+445 bp
Canadian Utilities 4.00% Series Y	CU.PR.C	Pfd-2H	P-2 (H)	\$26.00	\$1.000	3.85%	1-Jun-17	3.27%	5-YR CAN+240 bp
CIBC 5.35% Ser. 33	CM.PR.K	Pfd-1L	P-2 (H)	\$27.00	\$1.338	4.95%	31-Jul-14	2.01%	5-YR CAN +218 bp
CIBC 6.5% Ser. 35	CM.PR.L	Pfd-1L	P-2 (H)	\$27.58	\$1.625	5.89%	28-Apr-14	1.77%	5-YR CAN+447 bp
CIBC 6.5% Ser. 37	CM.PR.M	Pfd-1L	P-2 (H)	\$27.69	\$1.625	5.87%	28-Jul-14	2.03%	5-YR CAN+ 433 bp
Co-operators Cl. E Ser. D 7.25%	CCS.PR.D	Pfd-3H	P-2 (L)	\$26.75	\$1.810	6.77%	30-Jun-14	4.33%	5-YR CAN+521 bp
CU Inc. 3.8% Ser. 4	CIU.PR.C	Pfd-2H	P-2 (L)	\$25.11	\$0.950	3.78%	1-Jun-16	3.79%	5-YR CAN+136 bp
CU Inc. 6.7% Ser. 2	CIU.PR.B	Pfd-2H	P-2 (L)	\$28.18	\$1.675	5.94%	1-Jun-14	1.58%	5-YR CAN+481 bp
Emera Inc. 4.40% Ser A	EMA.PR.A	Pfd-3H	P-2 (L)	\$25.91	\$1.100	4.25%	15-Aug-15	3.51%	5-YR CAN+184 bp
Enbridge Inc. 4.00% Ser B	ENB.PR.B	Pfd-2L	P-2	\$25.90	\$1.000	3.86%	1-Jun-17	3.49%	5-YR CAN+240 bp
Enbridge Inc. 4.00% Ser D	ENB.PR.D	Pfd-2L	P-2	\$25.50	\$1.000	3.92%	1-Mar-18	3.73%	5-YR CAN+237 bp
Fortis Inc 4.25% Ser. H	FTS.PR.H	Pfd-2L	P-2	\$25.99	\$1.063	4.09%	1-Jun-15	3.15%	5-YR CAN+145 bp
Fortis Inc 5.25% Ser. G*	FTS.PR.G	Pfd-2L	P-2	\$26.65	\$1.313	4.92%	1-Sep-13	1.92%	5-YR CAN +213 bp
Great-West Lifeco Inc. 3.65% Ser N	GWO.PR.N	Pfd-1L	P-1 (L)	\$23.63	\$0.913	3.86%	31-Dec-15	5.21%	5-YR CAN+130 bp
Great-West Lifeco Inc. 6.00% Ser J	GWO.PR.J	Pfd-1L	P-1 (L)	\$27.00	\$1.500	5.56%	31-Dec-13	1.94%	5-YR CAN+307 bp
HSBC Bank Canada 6.60% Ser E	HSB.PR.E	Pfd-2H	P-1 (L)	\$27.39	\$1.650	6.02%	30-Jun-14	2.67%	5-YR CAN+ 485 bp
Husky Energy Inc 4.45% Ser 1	HSE.PR.A	Pfd-2L	P-2(L)	\$25.88	\$1.113	4.30%	31-Mar-16	3.58%	5-YR CAN+173 bp
Industrial Alliance 6.20% Ser C	IAG.PR.C	Pfd-2H	P-1 (L)	\$26.49	\$1.550	5.85%	31-Dec-13	3.15%	5-YR CAN+338 bp
Intact Financial Corp 4.20% Ser 1	IFC.PR.A	Pfd-2L	N/A	\$25.35	\$1.050	4.14%	30-Dec-17	3.95%	5-YR CAN+172 bp
Intact Financial Corp 4.20% Ser 3	IFC.PR.C	Pfd-2L	N/A	\$25.37	\$1.050	4.14%	30-Sep-16	3.88%	5-YR CAN+266 bp
Manulife Corp 4.20% Ser 3	MFC.PR.F	Pfd-2H	P-2 (H)	\$24.03	\$1.050	4.37%	19-Jun-16	5.24%	5-YR CAN+141 bp
Manulife Corp 4.40% Ser 5	MFC.PR.G	Pfd-2H	P-2 (H)	\$23.90	\$1.100	4.60%	19-Dec-16	5.51%	5-YR CAN+290 bp
Manulife Corp 5.60% Ser 1	MFC.PR.E	Pfd-2H	P-2 (H)	\$26.19	\$1.400	5.35%	19-Sep-14	3.85%	5-YR CAN+323 bp
Manulife Corp 6.60% Ser 4	MFC.PR.D	Pfd-2H	P-2 (H)	\$26.96	\$1.650	6.12%	19-Mar-14	3.07%	5-YR CAN+456 bp
National 5.375% Ser. 21	NA.PR.N	Pfd-2	P-2 (H)	\$26.58	\$1.340	5.04%	15-Aug-13	1.85%	5-YR CAN+205 bp
National 6.6% Ser. 24	NA.PR.O	Pfd-2	P-2 (H)	\$27.61	\$1.650	5.98%	15-Feb-14	1.99%	5-YR CAN+463 bp
National 6.6% Ser. 26	NA.PR.P	Pfd-2	P-2 (H)	\$27.49	\$1.650	6.00%	15-Feb-14	2.21%	5-YR CAN+479 bp
Power Financial Corp 4.40% Ser P	PWF.PR.P	Pfd-1L	P-1 (L)	\$25.50	\$1.100	4.31%	30-Jan-16	4.09%	5-YR CAN+160 bp
Power Financial Corp 6.00% Ser M	PWF.PR.M	Pfd-1L	P-1 (L)	\$27.04	\$1.500	5.55%	31-Jan-14	2.49%	5-YR CAN+320 bp
Royal Bank 5.00% Ser. AJ	RY.PR.I	Pfd-1L	P-1 (L)	\$26.34	\$1.250	4.75%	24-Feb-14	2.69%	5-YR CAN+193 bp
Royal Bank 5.60% Ser. AL	RY.PR.L	Pfd-1L	P-1 (L)	\$26.75	\$1.400	5.23%	24-Feb-14	2.54%	5-YR CAN+267 bp
Royal Bank 6.10% Ser. AX	RY.PR.Y	Pfd-1L	P-1 (L)	\$27.56	\$1.525	5.53%	24-Nov-14	2.66%	5-YR CAN+413 bp
Royal Bank 6.25% Ser. AN	RY.PR.N	Pfd-1L	P-1 (L)	\$27.18	\$1.560	5.74%	24-Feb-14	2.39%	5-YR CAN+350 bp
Royal Bank 6.25% Ser. AP	RY.PR.P	Pfd-1L	P-1 (L)	\$27.24	\$1.560	5.73%	24-Feb-14	2.28%	5-YR CAN+419 bp
Royal Bank 6.25% Ser. AR	RY.PR.R	Pfd-1L	P-1 (L)	\$27.25	\$1.560	5.72%	24-Feb-14	2.26%	5-YR CAN+450 bp
Royal Bank 6.25% Ser. AT	RY.PR.T	Pfd-1L	P-1 (L)	\$27.50	\$1.560	5.67%	24-Aug-14	2.60%	5-YR CAN+406 bp
Royal Bank 6.25% Ser. AV	RY.PR.X	Pfd-1L	P-1 (L)	\$27.49	\$1.560	5.67%	24-Aug-14	2.61%	5-YR CAN+442 bp
Sun Life Financial Inc. 3.90% Ser. 10R	SLF.PR.H	Pfd-1L	P-2 (H)/-	\$22.77	\$0.975	4.28%	30-Sep-16	6.11%	5-YR CAN+217 bp
Sun Life Financial Inc. 4.25% Ser. 12R	SLF.PR.I	Pfd-1L	P-2 (H)/-	\$24.15	\$1.063	4.40%	31-Dec-16	5.18%	5-YR CAN+273 bp
Sun Life Financial Inc. 4.35% Ser. 8R	SLF.PR.G	Pfd-1L	P-2 (H)/-	\$22.40	\$1.088	4.85%	30-Jun-15	8.26%	5-YR CAN+141 bp
Sun Life Financial Inc. 6.00% Ser. 6R	SLF.PR.F	Pfd-1L	P-2 (H)/-	\$26.29	\$1.500	5.71%	30-Jun-14	3.87%	5-YR CAN+379 bp

\* Holders do not have the option of converting to a floating rate preferred on redemption date

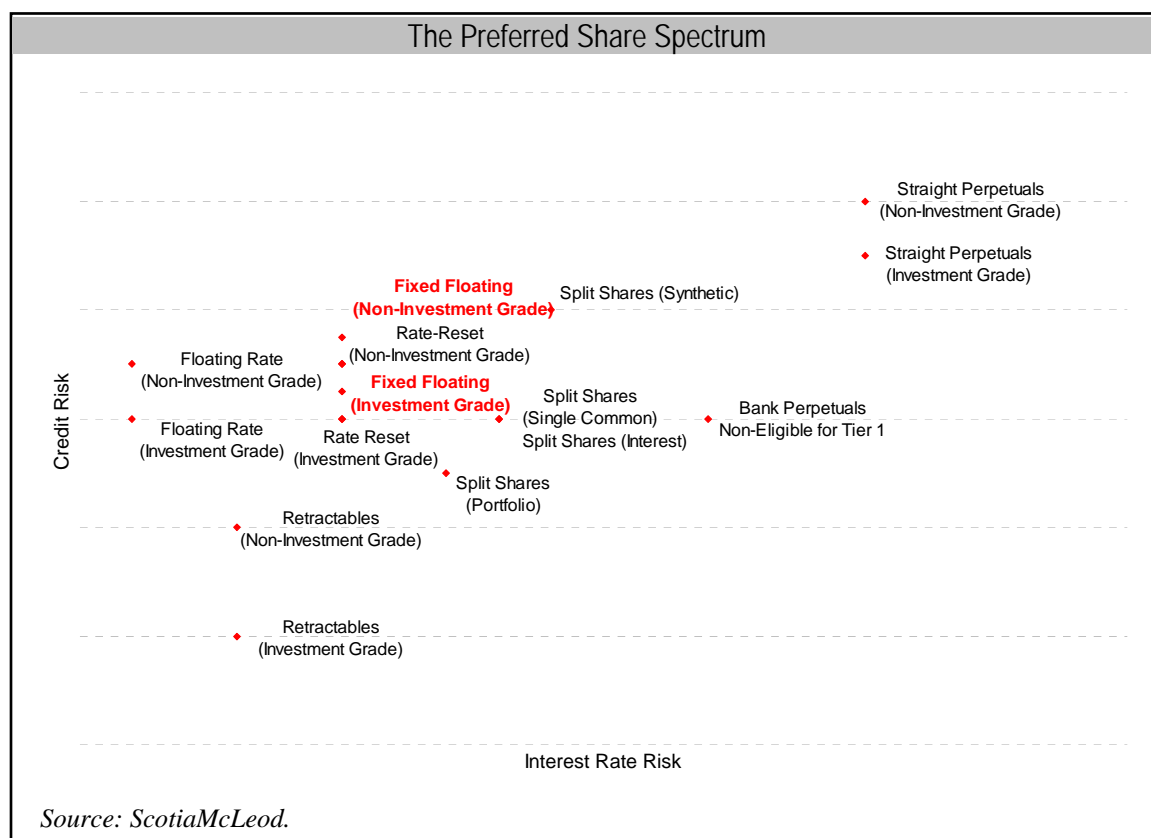
Source: Bloomberg, ScotiaMcLeod.

Rate Reset Preferred Share Table

Issuer <i>Investment Grade (P1-P2)</i>	TSE Symbol	RATING		Price Dec 30/11	Div	Current Yield	REDEMPTION		
		DBRS	S&P				Reset/Call Date	Yield to Reset	Reset Rate
TD Bank 5.00% Ser. AA	TD.PR.A	Pfd-1L	P-1 (L)	\$26.49	\$1.250	4.72%	31-Jan-14	2.49%	5-YR CAN+ 196 bp
TD Bank 5.00% Ser. S	TD.PR.S	Pfd-1L	P-1 (L)	\$26.20	\$1.250	4.77%	30-Jul-13	2.48%	5-YR CAN+160 bp
TD Bank 5.10% Ser. Y	TD.PR.Y	Pfd-1L	P-1 (L)	\$26.34	\$1.275	4.84%	30-Oct-13	2.61%	5-YR CAN+168 bp
TD Bank 5.60% Ser. AC	TD.PR.C	Pfd-1L	P-1 (L)	\$26.79	\$1.400	5.23%	31-Jan-14	2.55%	5-YR CAN+ 274 bp
TD Bank 6.25% Ser. AE	TD.PR.E	Pfd-1L	P-1 (L)	\$27.55	\$1.560	5.66%	30-Apr-14	2.24%	5-YR CAN+437 bp
TD Bank 6.25% Ser. AG	TD.PR.G	Pfd-1L	P-1 (L)	\$27.43	\$1.560	5.69%	30-Apr-14	2.44%	5-YR CAN+438 bp
TD Bank 6.25% Ser. AI	TD.PR.I	Pfd-1L	P-1 (L)	\$27.77	\$1.560	5.62%	31-Jul-14	2.26%	5-YR CAN+ 415 bp
TD Bank 6.25% Ser. AK	TD.PR.K	Pfd-1L	P-1 (L)	\$27.60	\$1.560	5.65%	31-Jul-14	2.52%	5-YR CAN+ 433 bp
TransCanada Corp 4.00% Ser 3	TRP.PR.B	Pfd-2L	P-2	\$25.75	\$1.000	3.88%	30-Jun-15	3.12%	5-YR CAN+128 bp
TransCanada Corp 4.40% Ser 5	TRP.PR.C	Pfd-2L	P-2	\$25.80	\$1.100	4.26%	30-Jan-16	3.48%	5-YR CAN+154 bp
TransCanada Corp 4.60% Ser 1	TRP.PR.A	Pfd-2L	P-2	\$26.21	\$1.150	4.39%	31-Dec-14	2.93%	5-YR CAN+192 bp
<b>Non-Investment Grade (P3-P4)</b>									
Aimia (Group Aeroplan) 6.50% Ser 1	AIM.PR.A	Pfd-3	P-3	\$26.15	\$1.625	6.21%	31-Mar-15	5.00%	5-YR CAN+ 375 bp
AltaGas Ltd 5.00% Ser A	ALA.PR.A	Pfd-3	P-3 (H)	\$25.82	\$1.250	4.84%	30-Sep-15	4.08%	5-YR CAN+266 bp
Bell Aliant Pref Equity. 4.55% Ser C	BAF.PR.C	N/A	P-3 (H)	\$25.12	\$1.138	4.53%	31-Mar-17	4.53%	5-YR CAN+309 bp
Bell Aliant Pref Equity. 4.85% Ser A	BAF.PR.A	Pfd-3H	P-3 (H)	\$25.64	\$1.213	4.73%	31-Mar-16	4.21%	5-YR CAN+209 bp
Brookfield Prop 5.10% Ser. R	BPO.PR.R	Pfd-3H	P-3 (H)	\$25.24	\$1.275	5.05%	30-Sep-16	4.90%	5-YR CAN+348 bp
Brookfield Prop 5.15% Ser. P	BPO.PR.P	Pfd-3H	P-3 (H)	\$24.95	\$1.288	5.16%	31-Mar-17	5.22%	5-YR CAN+300 bp
Brookfield Prop 6.15% Ser. N	BPO.PR.N	Pfd-3H	P-3 (H)	\$26.12	\$1.537	5.88%	30-Jun-16	5.06%	5-YR CAN+307 bp
Brookfield Prop 6.75% Ser. L	BPO.PR.L	Pfd-3H	P-3 (H)	\$26.15	\$1.680	6.42%	30-Sep-14	5.00%	5-YR CAN+417 bp
Brookfield Renewable Power 5.25% Ser 1	BRF.PR.A	Pfd-3H	P-3 (H)	\$25.85	\$1.313	5.08%	30-Apr-15	4.47%	5-YR CAN+262 bp
Canaccord Financial Inc. 5.50% Ser A	CF.PR.A	Pfd-3L	N/A	\$22.25	\$1.375	6.18%	30-Sep-16	8.37%	5-YR CAN+321 bp
Canadian Western Bank 7.25% Ser. 3	CWB.PR.A	N/A	N/A	\$27.35	\$1.813	6.63%	30-Apr-14	3.62%	5-YR CAN+500 bp
Capital Power Corp 4.60% Ser 1	CPX.PR.A	Pfd-3L	P-3 (H)	\$25.30	\$1.150	4.55%	31-Dec-15	4.30%	5-YR CAN+217bp
Capstone Infrastructure 5.00% Ser B	CSE.PR.A	N/A	P-3	\$17.50	\$1.250	7.14%	31-Jul-17	12.88%	5-YR CAN+271 bp
CPI Preferred Equity Ltd 7.00% Ser 2	CZP.PR.B	Pfd-4	P-4 (L)	\$22.70	\$1.750	7.71%	31-Dec-14	10.71%	5-YR CAN+418 bp
Dundee Corp 6.75% Ser 2	DC.PR.B	Pfd-3	P-3	\$26.46	\$1.688	6.38%	30-Sep-14	4.52%	5-YR CAN+410 bp
Equitable Group Inc 7.25% Ser 1	ETC.PR.A	N/A	N/A	\$25.90	\$1.813	7.00%	30-Sep-14	5.88%	5-YR CAN+453 bp
Fairfax Financial Hld 4.75% Ser E	FFH.PR.E	Pfd-3	P-3	\$22.19	\$1.188	5.35%	31-Mar-15	8.82%	5-YR CAN+216 bp
Fairfax Financial Hld 5.00% Ser G	FFH.PR.G	Pfd-3	P-3	\$23.35	\$1.250	5.35%	30-Sep-15	7.07%	5-YR CAN+256 bp
Fairfax Financial Hld 5.00% Ser I	FFH.PR.I	Pfd-3	P-3	\$23.40	\$1.250	5.34%	31-Dec-15	6.89%	5-YR CAN+285 bp
Fairfax Financial Hld 5.75% Ser C	FFH.PR.C	Pfd-3	P-3	\$25.50	\$1.438	5.64%	31-Dec-14	5.07%	5-YR CAN+315 bp
First National Financial Corp 4.65% Ser 1	FN.PR.A	Pfd-3	N/A	\$19.00	\$1.163	6.12%	31-Mar-16	12.00%	5-YR CAN+207 bp
GMP Capital Inc. 5.50% Ser B	GMP.PR.B	Pfd-3L	N/A	\$21.37	\$1.375	6.43%	31-Mar-16	9.77%	5-YR CAN+289 bp
Innervex Renewable Energy Inc 5.00%	INE.PR.A	Pfd-3L	P-3	\$23.75	\$1.250	5.26%	15-Jan-16	6.39%	5-YR CAN+279 bp
Northland Power Pref Equity Ser 1	NPL.PR.A	N/A	P-3	\$25.23	\$1.310	5.19%	30-Sep-15	3.55%	5-YR CAN+280 bp
Riocan REIT 4.70% Series C (Int & ROC)	REI.PR.C	Pfd-3H	P-3 (H)	\$25.15	\$1.175	4.67%	30-Jun-17	4.60%	5-YR CAN+318 bp
Riocan REIT 5.25% Series A (Int & ROC)	REI.PR.A	Pfd-3H	P-3 (H)	\$25.81	\$1.313	5.09%	31-Mar-16	4.44%	5-YR CAN+262 bp
Rona Inc. 5.25% Ser 6 Class A	RON.PR.A	Pfd-3L	P-3	\$23.92	\$1.313	5.49%	31-Mar-16	6.46%	5-YR CAN+265 bp
Shaw Comm Inc. 4.50% Ser A	SJR.PR.A	Pfd-3	P-3	\$25.39	\$1.125	4.43%	30-Jun-16	4.14%	5-YR CAN+200 bp
Talisman Energy Inc 4.20% Ser 1	TLM.PR.A	Pfd-3H	P-3 (H)	\$24.57	\$1.050	4.27%	31-Dec-16	4.65%	5-YR CAN+277 bp
TransAlta 4.60% Corp Ser A	TA.PR.D	Pfd-3	P-3 (H)	\$25.30	\$1.150	4.55%	31-Mar-16	4.32%	5-YR CAN+203 bp
TransAlta 4.60% Corp Ser C	TA.PR.F	Pfd-3	P-3 (H)	\$25.16	\$1.150	4.57%	30-Jun-17	4.57%	5-YR CAN+310 bp
Transcontinental Inc 6.75% Ser. D	TCL.PR.D	Pfd-3H	P-3 (H)	\$25.90	\$1.688	6.52%	15-Oct-14	5.95%	5-YR CAN+416 bp
Yellow Media Inc. 6.75% Ser 3	YLO.PR.C	Pfd-4L	P-4 (L)	\$2.80	\$1.675	59.82%	30-Sep-14	119.98%	5-YR CAN+417 bp
Yellow Media Inc. 6.90% Ser 5	YLO.PR.D	Pfd-4L	P-4 (L)	\$2.93	\$1.725	58.87%	30-Jun-15	97.61%	5-YR CAN+426 bp

Source: Bloomberg, ScotiaMcLeod.

## Fixed Floating Rate Preferred Shares



**Description:** This class of preferred share pays a fixed dividend until the reset date, which is typically also the call date. On that date, and every reset date thereafter, if the preferred share is not called, the holder has two options.

1. Locking in a fixed dividend until the next reset date. This rate will be determined by the issuer and will be announced at least 30-days before the reset date.
2. Exchanging to a floating rate preferred share. The floating rate is either a monthly or quarterly dividend depending on the issue and Prime is typically used as the reference rate for the dividend payments.

Investors have the option at each reset date, if the issue is not called, of switching back and forth between the two dividend options.

**Redemption:** Most fixed floaters are redeemable at the option of the issuer on the various call dates which coincide with the reset date when the investor may choose either a fixed or floating dividend.

**Advantages:** These issues are recommended for income investors who value the option of being able to re-set the dividend every five years to match their interest rate outlook. However, the new “rate reset” preferred shares now offer more transparency as the reset spread is set at issuance and known versus the fixed-floating rate preferred reset spread which is only announced by the issuer no less than 30 days before the reset date.

**Risks:** The main risk of investing in fixed floating rate preferred shares is that they are perpetual and subject to interest rate risk. Additionally, the issuer has a great degree of flexibility when resetting the fixed dividend rate.

**Recommendations:** Our most recent recommendations for the fixed floating category are the BCE Series AC (BCE.PR.C) and the BCE Series AA (BCE.PR.A). Please contact your ScotiaMcLeod advisor for current prices and yields.

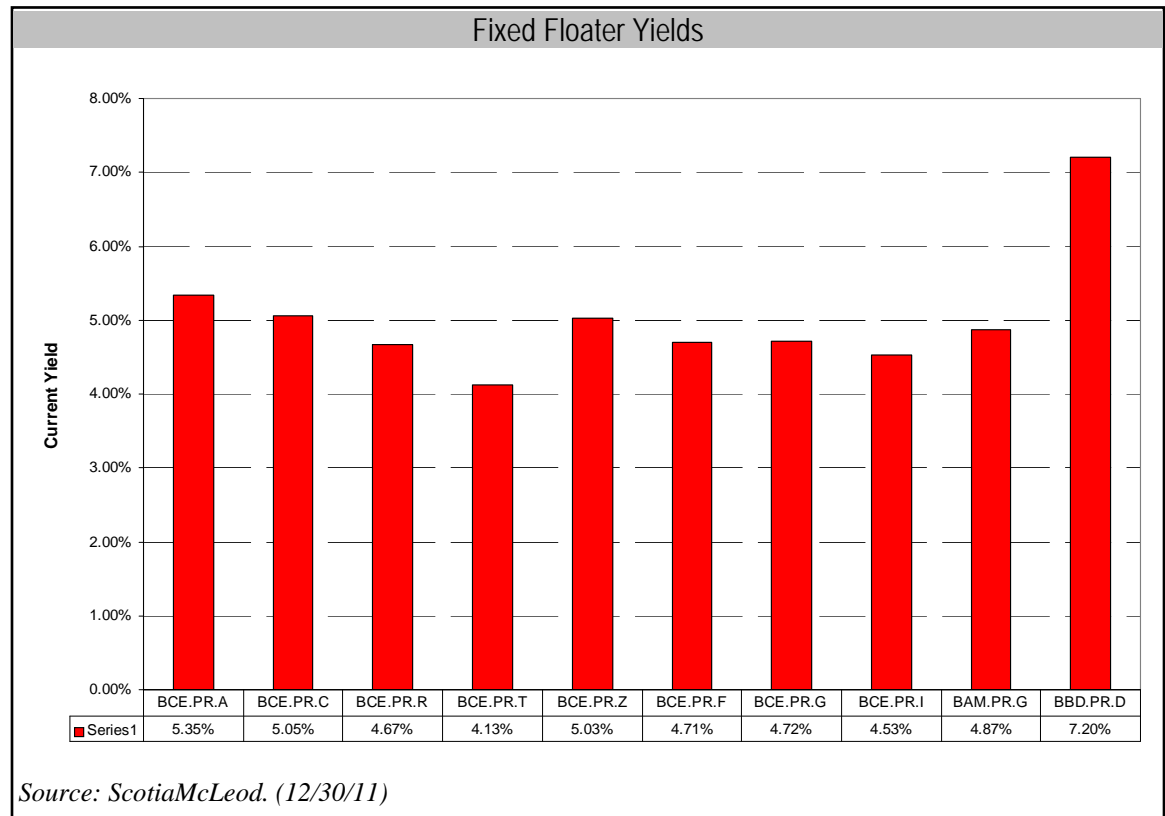
**What's New:** BCE Inc.'s Series AG preferred shares (BCE.PR.G) had the dividend reset at 4.50% from the previous 4.35% as of May 1st, 2011. From this higher dividend rate there was an increase in the number of fixed dividend rate shares following the conversion privilege. BCE Inc. Series AI (BCE.PR.I) had the dividend reset at 4.15% from the previous 4.35% as of August 1st, 2011. Investors had the option of switching into a floating rate preferred share at this time and 23% responding therefore creating BCE Inc. Series AJ (BCE.PR.J). BCE Inc. Series AT (BCE.PR.T) had the dividend reset based on 215% of the Government of Canada bond yield which equated to a new dividend rate of 3.393% from the previous 4.50% as of November 1st, 2011. Due to the lower dividend rate after the conversion privilege there became a greater number of floating rate share (BCE.PR.S) outstanding. Brookfield Asset Management Series 9 (BAM.PR.G) had the dividend reset at 3.80% from the previous 4.35% as of November 1, 2011.

Fixed Floating Rate Preferred Share Table									
Issuer	TSE Symbol	RATING		Price Dec 30/11	Div	Current Yield	REDEMPTION		
		DBRS	S&P				Reset Date	Yield to Reset	Reset Rate
<b>Investment Grade (P1-P2)</b>									
BCE 4.80% Ser. AA	BCE.PR.A	Pfd-3H	P-2 (L)	\$22.45	\$1.200	5.35%	1-Sep-12	23.07%	>= 80% 5-yr CAN
BCE 4.60% Ser. AC	BCE.PR.C	Pfd-3H	P-2 (L)	\$22.76	\$1.150	5.05%	1-Mar-13	13.67%	>= 80% 5-yr CAN
BCE 4.49% Ser. R	BCE.PR.R	Pfd-3H	P-2 (L)	\$24.05	\$1.123	4.67%	1-Dec-15	5.72%	>= 80% 5-yr CAN
BCE 3.393% Ser. T	BCE.PR.T	Pfd-3H	P-2 (L)	\$20.55	\$0.848	4.13%	1-Nov-16	7.81%	>= 80% 5-yr CAN
BCE 4.331% Ser. Z	BCE.PR.Z	Pfd-3H	P-2 (L)	\$21.51	\$1.083	5.03%	1-Dec-12	22.53%	>= 80% 5-yr CAN
BCE Inc. 4.541% Ser. AF	BCE.PR.F	Pfd-3H	P-2 (L)	\$24.12	\$1.135	4.71%	1-Feb-15	5.70%	>= 80% 5-yr CAN
BCE Inc. 4.50% Ser. AG	BCE.PR.G	Pfd-3H	P-2 (L)	\$23.85	\$1.125	4.72%	1-May-16	5.64%	>= 80% 5-yr CAN
BCE Inc. 4.15% Ser. AI	BCE.PR.I	Pfd-3H	P-2 (L)	\$22.91	\$1.038	4.53%	1-Aug-16	6.20%	>= 80% 5-yr CAN
Brookfield Asset 3.80% S 9	BAM.PR.G	Pfd-2L	P-2	\$19.50	\$0.950	4.87%	1-Nov-16	9.76%	>= 80% 5-yr CAN
<b>Non-Investment Grade (P3-P4)</b>									
Bombardier 5.476% Ser.3	BBD.PR.D	Pfd-4	P-4	\$18.29	\$1.317	7.20%	31-Jul-12	69.52%	>= 80% 5-yr CAN

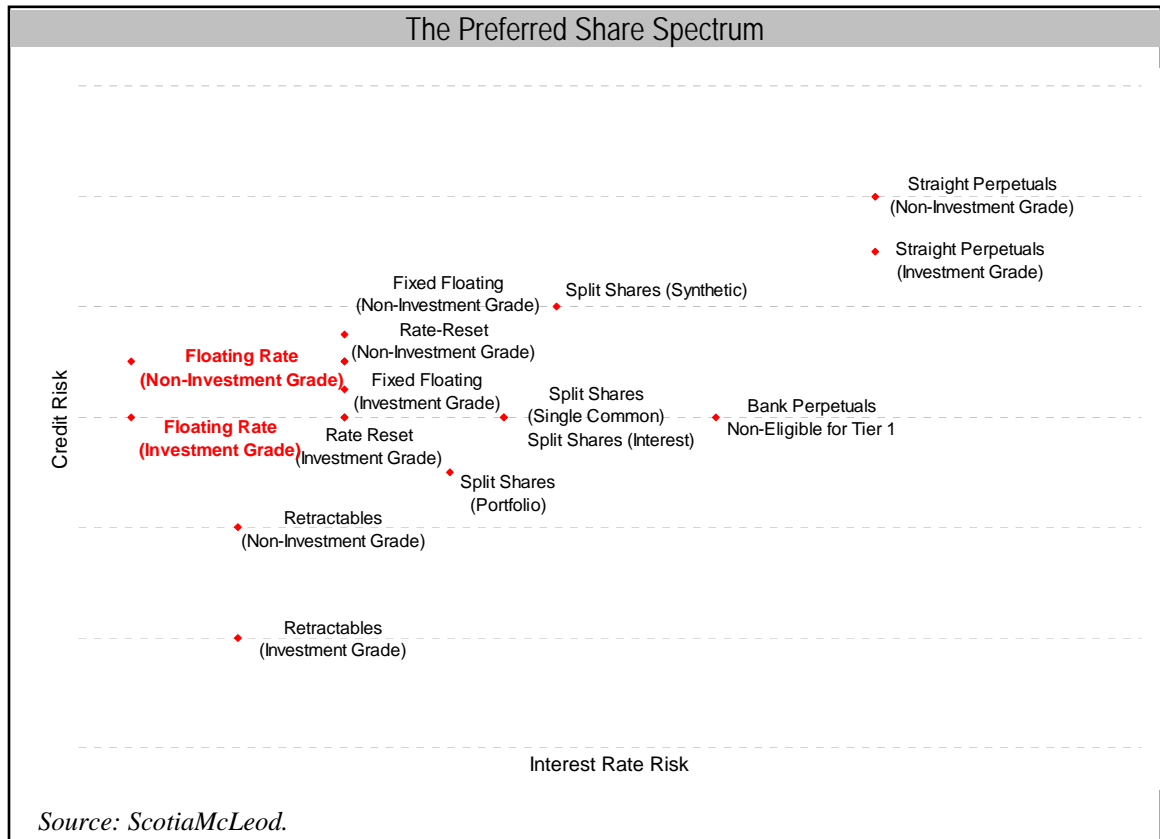
Source: Bloomberg, ScotiaMcLeod.

### Fixed Floater Yield Commentary

This chart highlights the current yield as of December 30, 2011 of all the outstanding fixed floating preferred shares. Timing is an important consideration in purchasing these shares. Please contact your ScotiaMcLeod advisor for more information on these issues.



## Floating Rate Preferred Shares



**Description:** Floating rate preferred shares pay dividends on a quarterly (and in some cases monthly) basis. The dividends float in relation to a reference rate, usually the Prime rate, although some may have a “floor” or minimum dividend. Another interesting feature many floating rate preferreds have is a ratcheting mechanism which raises or lowers the dividend on a monthly basis depending whether or not the preferred share trades within a specified price band.

**Redemption:** Shares are redeemable at the issuer’s option and holders do not have a retraction feature, which makes them perpetual in nature. Most of these shares are callable anytime at a set call price which is indicated in the table on the following page.

**Advantages:** Some of the issues trade below their par value due to low dividends or because the issuer has a poor credit rating. For the speculative preferred share investor this may provide an opportunity for capital gains if the issuer’s coverage ratios improve and the rating agencies upgrade the credit rating. Additionally, this type of preferred share should perform well in a rising interest rate environment as the dividend will begin increasing as Prime increases.

**Risks:** The risks surrounding this class of share include credit risk, such that if the issuer has any difficulties paying the dividend, or if the issuer is downgraded by a rating agency. In addition, if interest rates are expected to decline, the monthly/quarterly income (dividend payments) may be reduced. With respect to the ratcheting mechanism, there is a risk that it is not significant enough to keep the preferred share trading close to its par value. Liquidity is another risk with this type of preferred share as there are often not a large number of shares outstanding causing prices to be volatile when holding this type of preferred share.

**Recommendations:** Investors looking to buy a floating rate preferred share should look towards high credit quality issues which pay a high percentage of Prime. Floating rate preferred shares which match this criteria include BCE Inc. Series B (BCE.PR.B) & BCE Inc. Series Y (BCE.PR.Y). Currently both of these issues pay the holder 100% of prime (3.00%) on a monthly basis. These shares tend to be relatively illiquid yet should perform well in times of rising interest rates as the dividends will rise with interest rates.

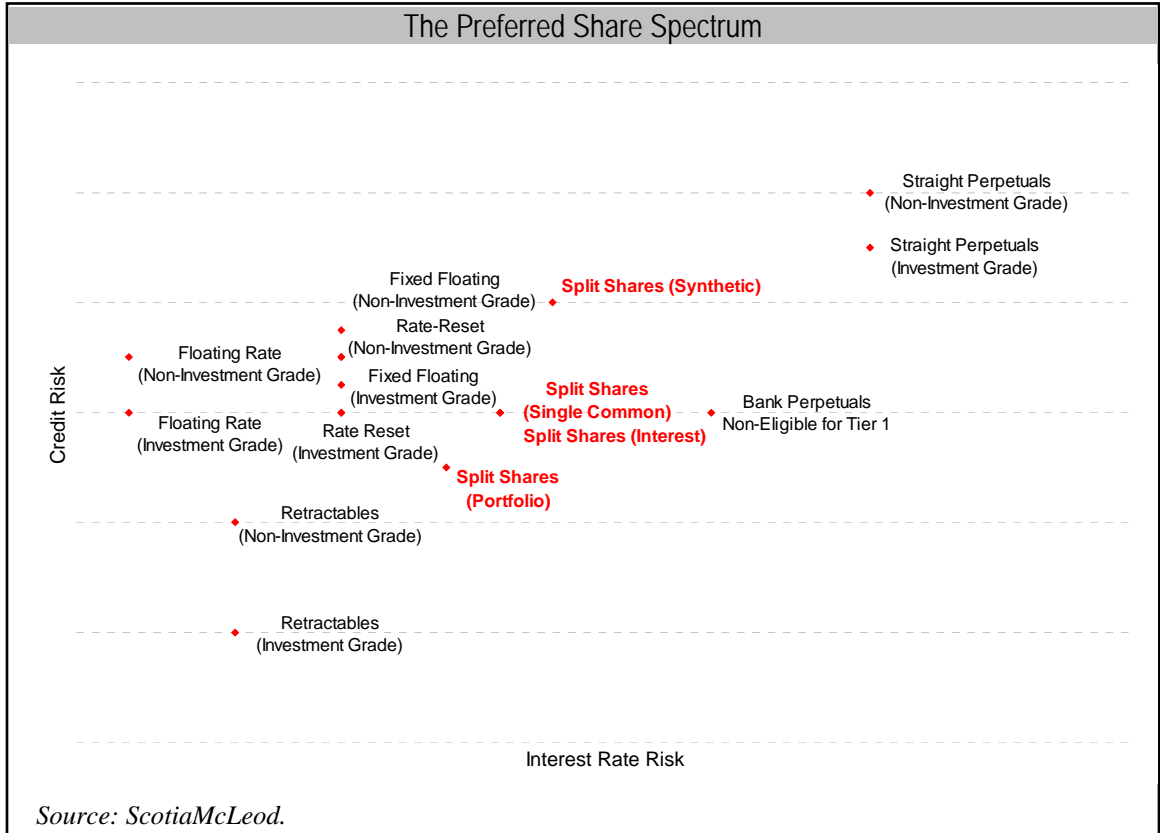
**What's New:** This past year BCE Inc. Series AJ (BCE.PR.J) was created as over 3 million outstanding BCE.PR.I shares were converted based on the conversion privilege held in August. Furthermore, in December Empire Co. announced that they will redeem all of their outstanding Series 2 shares (EMP.PR.B) at a price of \$25.00 on January 31, 2012.

Floating Rate Preferred Share Table

Issuer Investment Grade (P1-P2)	RATING		Price Dec 30/11	Exp Div Based on Last Pmt	Current Yield	Payment Frequency	Floating Rate	REDEMPTION			
	TSE Symbol	DBRS						S&P	Reset Date	Call Date	Call Price
BCE Inc. Ser. AB	BCE.PR.B	Pfd-3H	P-2 (L)	\$22.15	\$0.750	3.39%	Monthly	50% < 100% of Prime	1-Sep-12	ANYTIME	\$25.50
BCE Inc. Ser. AD	BCE.PR.D	Pfd-3H	P-2 (L)	\$21.69	\$0.750	3.46%	Monthly	50% < 100% of Prime	1-Mar-13	ANYTIME	\$25.50
BCE Inc. Ser. AJ	BCE.PR.J	Pfd-3H	P-2 (L)	\$21.70	\$0.750	3.46%	Monthly	50% < 100% of Prime	1-Aug-16	ANYTIME	\$25.50
BCE Inc. Ser. S	BCE.PR.S	Pfd-3H	P-2 (L)	\$21.62	\$0.750	3.47%	Monthly	50% < 100% of Prime	1-Nov-16	ANYTIME	\$25.50
BCE Inc. Ser. Y	BCE.PR.Y	Pfd-3H	P-2 (L)	\$21.69	\$0.750	3.46%	Monthly	50% < 100% of Prime	1-Dec-12	ANYTIME	\$25.50
BCE Inc. Series AE	BCE.PR.E	Pfd-3H	P-2 (L)	\$21.74	\$0.750	3.45%	Monthly	50% < 100% of Prime	1-Feb-15	ANYTIME	\$25.50
BCE Inc. Series AH	BCE.PR.H	Pfd-3H	P-2 (L)	\$21.42	\$0.750	3.50%	Monthly	50% < 100% of Prime	1-May-16	ANYTIME	\$25.50
Brookfield Asset A Ser. 4	BAM.PR.C	Pfd-2L	P-2	\$14.72	\$0.525	3.57%	Quarterly	70% of Prime	N/A	ANYTIME	\$25.00
Brookfield Asset A Ser. 2	BAM.PR.B	Pfd-2L	P-2	\$15.26	\$0.525	3.44%	Quarterly	70% of Prime	N/A	ANYTIME	\$25.00
Brookfield Asset A Ser. 8	BAM.PR.E	Pfd-2L	P-2	\$20.98	\$0.750	3.57%	Monthly	50% < 100% of Prime	1-Nov-16	ANYTIME	\$25.00
Brookfield Asset A Ser. 13	BAM.PR.K	Pfd-2L	P-2	\$15.46	\$0.525	3.40%	Quarterly	70% of Prime	N/A	ANYTIME	\$25.00
Brookfield Asset A Ser. 14	BAM.PR.L	Pfd-2L	P-2	\$80.00	\$1.926	2.41%	Monthly	63% of Prime	N/A	ANYTIME	\$100.00
Power Corp. 1986 Series	POW.PR.F	Pfd-2H	P-2 (H)	\$42.00	\$1.050	2.50%	Quarterly	70% of Prime	N/A	ANYTIME	\$50.00
Power Corp. Voting Pref.	POW.PR.E	Pfd-2H	P-2 (H)	\$28.50	\$1.160	4.07%	Quarterly	Stock Dividend Rate	N/A	n.a.	n.a.
Power Finl. Ser. A	PWF.PR.A	Pfd-1L	P-1 (L)	\$20.00	\$0.522	2.61%	Quarterly	70% of Prime	N/A	ANYTIME	\$25.00
Thomson Reuters Ser. II	TRI.PR.B	Pfd-2L	P-2	\$20.50	\$0.522	2.55%	Quarterly	70% of Prime	N/A	ANYTIME	\$25.00
<b>Non-Investment Grade (P3-P4)</b>											
Bombardier Ser. 2	BBD.PR.B	Pfd-4	P-4	\$15.25	\$0.750	4.92%	Monthly	50% < 100% of Prime	31-Jul-12	1-Aug-12	\$25.00
BPO Properties Ser. G	BPP.PR.G	Pfd-3	P-3	\$12.60	\$0.522	4.14%	Quarterly	70% of Prime	N/A	ANYTIME	\$25.00
BPO Properties Ser. J	BPP.PR.J	Pfd-3	P-3	\$12.20	\$0.522	4.28%	Quarterly	70% of Prime	N/A	ANYTIME	\$25.00
BPO Properties Ser. M	BPP.PR.M	Pfd-3	P-3	\$12.30	\$0.522	4.24%	Quarterly	70% of Prime	N/A	ANYTIME	\$25.00
Empire Co. Ser. 2	EMP.PR.B	CCCH	N/A	\$25.25	\$0.560	2.22%	Quarterly	75% of Prime	N/A	31-Jan-12	\$25.00

Source: Bloomberg, ScotiaMcLeod.

## Split and Structured Preferred Shares



**Description:** Split and structured preferred shares are synthetic preferred shares that are based on an underlying portfolio of common shares or on a portfolio created from more diverse or complex financial instruments, including derivatives. In the most basic split preferred share the underlying portfolio allocates any capital appreciation to a capital share and all dividend income to a dividend (preferred) share. This class of preferred share is not without risk. The preferred payments by a split share corporation are merely a flow-through of distributions received on the portfolio of securities it holds. Therefore, if a split shares' underlying portfolio holding(s) cuts its dividend, or an event occurs which impairs the portfolio's ability to receive income, both the capital and preferred shares will likely drop in price. The preferred shares will then fall in price to a yield level where new investors feel adequately compensated for the risk of either another dividend cut, or, the possibility that they will not receive par value for the preferred at maturity. In general, splits that have a diversified portfolio are considered less risky than those based on a single common share. Split and structured preferred shares are appropriate for investors looking for a steady income stream with a fixed term maturity. In many cases they offer yields above retractable and rate reset preferred shares for only a modest increase in risk.

**Redemption:** Split and structured preferred shares can be redeemed by the issuer when a capital share is retracted without a preferred share (generally, one preferred share and one capital share together make up a whole unit). Most split shares have a special annual retraction date when holders of capital shares can retract them for very little or no cost. When this happens, the issuer must call in or redeem enough preferred shares to match the amount of capital shares retracted. Each split preferred shareholder has a proportionate amount of preferreds redeemed at par when this happens. This is not in the best interest of the preferred shareholder as their capital gets reduced and the projected future cash flows will be altered. Please refer to page 40 of this publication for the detailed notes of the redemption features pertaining to each issue.

**Retraction:** Split share preferreds are retractable on their own or in certain cases as a whole unit—a preferred share plus a capital share on a special annual retraction date. Details differ between issues and can be found on page 40 of this publication.

**Advantages:** Split and structured preferred shares offer a yield pickup over existing preferreds often without sacrificing credit quality. Additionally, split shares have a definitive maturity date and can be incorporated into a laddered portfolio.

**Risks:** The risks of split and structured preferred shares include events that may impact the underlying portfolio's value. If the net asset value of the underlying portfolio falls substantially and remains at those levels until maturity, the investor may not receive the par value of their investment. Reviewing a split shares' *downside protection* is one approach to assess the risk level of the investment. Downside protection is the amount by which the market value of the underlying portfolio may fall before the ability to repay the par value of the preferred share is impeded. In addition, this type of preferred share is often less liquid than other preferred shares due to the lower number of shares outstanding.

**Recommendations:** Although there is an abundance of split shares outstanding investors should focus on those that have high credit quality providing at least 35% downside protection for the preferred share investors. For a split based on a single common share we recommend: BAM Split Corp (BNA.PR.E) which is based on a portfolio of Brookfield Asset Management shares. Attractive splits which are based on an underlying portfolio of common shares include: Canadian Banc Recovery Corp (BK.PR.A) which invests in a portfolio of the six Canadian banks and Dividend 15 Split (DFN.PR.A) which is based on a portfolio of 15 dividend yielding, high quality Canadian corporations. Please note that these recommendations are time and price sensitive. Contact your ScotiaMcLeod advisor for a current list of recommendations.

**What's New:** There have been 4 new split shares that have come to market over the past year most of which were replacements to redeemed issues. Allbanc Split Corp II (ALB.PR.B) was created to provide investors with an exposure to common shares of the six Canadian banks. Investors receive a fixed cumulative 4.25% dividend with a maturity date of February 28, 2016. This was a replacement of ALB.PR.A which was redeemed in February. Big Bank and Oil Split (BBO.PR.A) was able to extend the term of its preferred share for an additional 5-year to December 30, 2016 following a shareholder vote. Additionally, they issued a small amount of new preferred shares in September. When both 5Banc Split Class B (FBS.PR.B) and Utility Split Class A (UST.PR.A) were redeemed in December a new class of preferred share was issued. 5BancSplit Class C (FBS.PR.C) has a fixed dividend rate of 4.75%, a maturity date of December 15, 2014 and allows investors exposure to common shares of the 5 Canadian banks. Utility Split Trust (UST.PR.C) has a 5.25% interest coupon, a maturity date of December 31, 2016 and allows investors exposure to a portfolio of utility issuers.

### Split Share Commentary

The various split share yields demonstrate where the various issues trade in relation to other issues of the same type of split. However, the downside protection of each preferred should also be closely evaluated. There is often a reason why certain splits are trading with a very high yield as they may either have a lower credit rating or have less downside protection available for the preferred shareholder. Each split share is listed in the table below and on the following page which details all of the important information of each product.

Split Shares Based on a Single Common Share Table									
Issuer	TSE Symbol	RATING		Price Dec 30/11	Div	RETRACTION			Downside Protection
		DBRS	S&P			Date	Price	Pre-tax YTR	
<b>Investment Grade (P1-P2)</b>									
BAM Split 4.35% Class AA	BNA.PR.C	Pfd-2L	N/A	\$22.10	\$1.088	10-Jan-19	\$25.00	6.44%	67.52%
BAM Split 4.85% Class AA Ser 5	BNA.PR.E	Pfd-2L	N/A	\$23.78	\$1.213	10-Dec-17	\$25.00	5.91%	67.52%
BAM Split 4.95% Class AA	BNA.PR.B	Pfd-2L	N/A	\$25.00	\$1.238	25-Mar-16	\$25.00	5.01%	67.52%
BAM Split 7.25% Class AA Ser 4	BNA.PR.D	Pfd-2L	N/A	\$26.70	\$1.813	9-Jul-14	\$25.00	4.39%	67.52%
BNS Split Corp. II 4.25%	BSC.PR.B	Pfd-2L	N/A	\$18.97	\$0.801	22-Sep-15	\$18.85	4.12%	58.53%
TD Split Inc. Ser. C 4.75%	TDS.PR.C	Pfd-2L	N/A	\$10.28	\$0.475	15-Nov-15	\$10.00	4.16%	62.76%
<b>Non-Investment Grade (P3-P5)</b>									
NB Split Corp. 4.75%	NBF.PR.A	Pfd-3H	N/A	\$32.77	\$1.554	15-Feb-12	\$32.72	-1.50%	55.41%
New Commerce Split 7.50% Class I	YCM.PR.A	N/A	N/A	\$5.32	\$0.375	1-Dec-14	\$5.00	5.19%	45.65%
New Commerce Split 7.50% Class II	YCM.PR.B	N/A	N/A	\$2.86	Discont	1-Dec-14	\$5.00	18.64%	0.00%
Original Commerce Split	YCM.PR.X	N/A	N/A	\$8.60	Discont	1-Dec-14	\$10.00	4.76%	-23.30%
R Split III Corp. 4.50%	RBS.PR.A	Pfd-3	N/A	\$29.18	\$1.315	31-May-12	\$29.22	6.12%	42.97%
S Split Corp. 5.25%	SBN.PR.A	Pfd-3	N/A	\$10.35	\$0.525	1-Dec-14	\$10.00	4.02%	43.02%
SL Split Corp.	SLS.PR.A	Pfd-4L	N/A	\$17.65	\$1.289	31-Jan-13	\$25.78	45.11%	-43.22%
TDb Split Inc. 5.25%	XTD.PR.A	N/A	N/A	\$10.00	\$0.525	1-Dec-14	\$10.00	5.17%	14.41%

Source: Bloomberg, ScotiaMcLeod.

Split Shares Which Pay Interest Table									
Issuer	TSE Symbol	DBRS	S&P	Price Dec 30/11	Div	Date	Price	Pre-tax YTR	Downside Protection
Utility Split Trust 5.25% Class B	UST.PR.B	Pfd-2L	N/A	\$10.35	\$0.000	31-Dec-16	\$10.00	4.24%	58.44%
<b>Non-Investment Grade (P3-P5)</b>									
Brookfield SoundVest	BSD.PR.A	Pfd-4L	N/A	\$9.43	\$0.600	31-Mar-15	\$10.00	8.10%	24.53%
Faircourt Split Trust	FCS.PR.B	Pfd-3L	N/A	\$10.07	\$0.625	31-Dec-14	\$10.00	6.04%	38.31%

Source: Bloomberg, ScotiaMcLeod.

## Split Shares Based on an Underlying Portfolio of Common Shares Table

Issuer <b>Investment Grade (P1-P2)</b>	TSE Symbol	RATING			Price Dec 30/11	Div	RETRACTION			Downside Protection
		DBRS	S&P				Date	Price	Pre-tax YTR	
5Banc Split Inc. 4.75% Class C	FBS.PR.C	Pfd-2L	N/A		\$10.39	\$0.475	15-Dec-14	\$10.00	3.46%	57.77%
Allbanc Split Corp. 5.0%	ABK.PR.B	Pfd-2L	N/A		\$26.99	\$1.338	10-Mar-13	\$26.75	4.57%	54.58%
Allbanc Split Corp. II 4.25%	ALB.PR.B	Pfd-2L	N/A		\$22.05	\$0.927	28-Feb-16	\$21.80	4.07%	49.68%
Big 8 Split Corp. Class B 7.00%	BIG.PR.B	Pfd-2	N/A		\$12.60	\$0.840	15-Dec-13	\$12.00	4.53%	57.11%
Big 8 Split Corp. Class C 5.75%	BIG.PR.C	Pfd-2	N/A		\$12.23	\$0.690	15-Dec-13	\$12.00	4.91%	57.11%
Big Bank Big Oil Split 5.25%	BBO.PR.A	Pfd-2L	N/A		\$10.21	\$0.525	16-Dec-16	\$10.00	4.59%	51.53%
Cdn. Financials & Utilities	CFS.PR.A	Pfd-1	N/A		\$10.02	\$0.425	31-Jan-12	\$10.00	-3.30%	23.25%
First Asset CanBanc Split 6.50%	CBU.PR.A	Pfd-2	N/A		\$13.00	\$0.650	15-Jan-16	\$10.00	-0.86%	72.21%
Newgrowth Corp. Ser 2 6.0%	NEW.PR.C	Pfd-2	N/A		\$14.20	\$0.822	26-Jun-14	\$13.70	4.52%	69.15%
<b>Non-Investment Grade (P3-P5)</b>										
Brompton Lifeco Split	LCS.PR.A	Pfd-4H	N/A		\$8.15	\$0.525	30-Apr-14	\$10.00	14.87%	-2.46%
Brompton Split Banc 5.25%	SBC.PR.A	Pfd-3H	N/A		\$10.06	\$0.525	30-Nov-12	\$10.00	4.39%	49.57%
Canadian Banc Recovery Corp	BK.PR.A	Pfd-3H	N/A		\$10.10	\$0.500	1-Dec-18	\$10.00	5.31%	49.77%
Cdn. Life Companies 5.25%	LFE.PR.A	Pfd-3L	N/A		\$9.40	\$0.525	9-Dec-12	\$10.00	12.31%	6.02%
Copernican Intl Finl. Split	CIR.PR.A	N/A	N/A		\$3.70	\$0.500	2-Dec-13	\$10.00	64.92%	-104.08%
Copernican World Banks	CBW.PR.A	N/A	N/A		\$3.14	\$0.525	2-Dec-13	\$10.00	76.51%	-152.53%
Dividend 15 Split 5.25%	DFN.PR.A	Pfd-3H	N/A		\$10.32	\$0.525	1-Dec-14	\$10.00	3.98%	44.63%
Dividend 15 Split II 5.25%	DF.PR.A	Pfd-3	N/A		\$10.23	\$0.525	1-Dec-14	\$10.00	4.31%	33.69%
Dividend Growth Split 5.25%	DGS.PR.A	Pfd-3	N/A		\$10.13	\$0.525	30-Nov-14	\$10.00	4.97%	38.80%
Financial 15 Split 5.25%	FTN.PR.A	Pfd-4H	N/A		\$9.37	\$0.525	1-Dec-15	\$10.00	7.17%	22.06%
Financial 15 Split II 5.25%	FFN.PR.A	Pfd-3L	N/A		\$9.20	\$0.525	30-Dec-14	\$10.00	8.25%	17.36%
GlobalBanc Advantaged 8 (ROC)	GBA.PR.A	N/A	N/A		\$3.30	Deferred	15-Dec-12	\$10.00	148.54%	-50.60%
Life & Banc Split Corp. 5.25%	LBS.PR.A	Pfd-3	N/A		\$9.90	\$0.525	29-Nov-13	\$10.00	5.43%	32.30%
Lifeco Split Corp 4.00% Class C	LSC.PR.C	N/A	N/A		\$36.10	\$1.474	31-Jul-12	\$36.84	9.14%	17.80%
Mulvihill Premium Bank 5.75%	PIC.PR.A	N/A	N/A		\$14.50	\$0.863	1-Nov-17	\$15.00	6.67%	27.22%
Prime Dividend(Prime+75 Bps)	PDV.PR.A	Pfd-3H	N/A		\$10.11	\$0.500	1-Dec-18	\$10.00	5.29%	38.73%
Split Yield Corp. Class I	YLD.PR.A	Pfd-5	N/A		\$17.73	\$1.100	1-Feb-12	\$20.00	281.25%	-13.57%
US Financial 15 Split 5.25%	FTU.PR.A	N/A	N/A		\$3.85	\$0.525	1-Dec-12	\$10.00	133.32%	-153.16%
World Financial Split 5.25%	WFS.PR.A	N/A	N/A		\$8.35	\$0.525	30-Jun-18	\$10.00	8.63%	-1.01%

Source: Bloomberg, ScotiaMcLeod.

## Synthetic Split Shares Table

Issuer <b>Non-Investment Grade (P3-P4)</b>	TSE Symbol	RATING			Price Dec 30/11	Div	RETRACTION		
		DBRS	S&P				Date	Price	Pre-tax YTR
Financial Pref. Sec. 5% (ROC)	FPR.PR.A	N/A	N/A		\$12.50	\$1.250	31-Dec-16	\$25.00	21.85%
Kingsway 5.00% LROC	KSP.UN	N/A	N/A		\$11.44	\$1.25	30-Jun-15	\$25.00	31.17%

Source: Bloomberg, ScotiaMcLeod.

### Split Preferred Shares Retraction Features

1. **Allbanc Split Corp. II** can be redeemed by the company at par (\$26.75) on the annual retraction date (March) to the extent that capital shares have been retracted without a matching amount of preferred shares. The preferred shares can be retracted on a monthly basis for a payment equal to 95% of the unit value less the cost of purchasing a Capital Share in the market, less \$1.00.
2. **Allbanc Split Corp. II** can be redeemed by the company at par on the annual retraction date (February) to the extent that capital shares have been retracted without a matching amount of preferred shares. The preferred shares can be retracted on a monthly basis for the amount by which 95% of the Unit Value exceeds the aggregate of i) the average cost to the company, including commissions, of purchasing two capital shares in the market; and ii) \$1.00.
3. **Big Bank Big Oil Split Corp.** preferred shares can be surrendered for retraction at any time but will be retracted only on the second last business day of each month. Shareholders retracting preferred shares will receive 96% of the lesser of i) the NAV per Unit less the cost to the company to purchase a capital share for cancellation, and ii) \$10.00. A preferred shareholder may concurrently retract an equal number of preferred and capital shares on the second last business day in December of each year at a retraction price equal to the NAV per Unit on that date, less any cost associated with the retraction.
4. **Big 8 Split Corp. Inc. (BIG.PR.A, BIG.PR.C)** preferred shares may be redeemed by the company on the special annual retraction (December) at par (\$25.00) to the extent that capital shares are retracted. Preferred shares may also be retracted at any time at a cash price per preferred equal to the amount by which 95% of the unit value exceeds the aggregate of i) the average cost to the company including commissions of buying a capital share in the market and ii) \$1.00. A holder who surrenders one Preferred Share together with one Capital Share will receive an amount equal to 95% of the Unit Value less \$1.00.
5. **The BAM Split Corp. Class AA 4.95% (BNA.PR.B)** preferred shares can be retracted any time for an amount equal to the lesser of i) 95% of the NAV per unit and ii) \$25.00 less 5% of the NAV per unit, in either case less \$1.00. Callable by the company at any time prior to redemption at a price equal to \$26.00 from March 25, 2009 until March 25, 2016 and then the price will decline by \$0.25 per year until March 25, 2016 at which time the redemption price will be \$25.00.
6. **The BAM Split Corp Class AA 4.35% (BNA.PR.C)** preferred shares can be retracted at any time. A holder retracting will receive a number of debentures (Series 1) as payment for the shares. The retraction price will be equal to the lesser of (i) Net Asset Value per Unit and (ii)\$25.00. The Series 1 Debentures will be issued by the Company and have a principal amount of \$25.00 and will mature on January 10, 2019. The Preferred Shares are callable by the company at any time on or after January 10, 2012 at a price of \$26.00 until January 9, 2016, and then the price will decline by \$0.25 per year.
7. **The BAM Split Corp Class AA Series 4 (BNA.PR.D)** preferred shares can be retracted at any time. A holder retracting will receive a number of debentures (Series 2) as payment for the shares. The retraction price will be equal to the lesser of (i) Net Asset Value per Unit and (ii)\$25.00. The Series 2 Debentures will be issued by the Company and have a principal amount of \$25.00 and will mature on July 9, 2014. The Preferred Shares are callable by the company at any time at a price of \$26.00 plus accrued and unpaid dividend.
8. **The BAM Split Corp Class AA Series 5 (BNA.PR.E)** preferred shares can be retracted at any time. A holder retracting will receive a number of debentures (Series 3) as payment for the shares. The retraction price will be equal to the lesser of (i) Net Asset Value per Unit and (ii)\$25.00. The Series 3 Debentures will be issued by the Company and have a principal amount of \$25.00 and will mature on December 10, 2017. The Preferred Shares are callable by the company at any time on or after December 10, 2015 and prior to December 10, 2017 at a price of \$25.50 plus accrued and unpaid dividend until December 10, 2016. The redemption price will decline by \$0.25 each year thereafter to \$25.00. Additionally, the Company can redeem the shares anytime at \$26.00 plus accrued and unpaid dividends if capital shares have been retracted
9. **BNS Split Corp. II** preferred shares can be surrendered for retraction at any time for an amount if any, by which 95% of the Unit Value exceeds the aggregate of (i) the average cost to the Company, including commissions, of purchasing two Capital Shares in the market; and (ii) \$1.00. The company may also redeem the shares on the special annual retraction date (September) at \$18.85 to the extent that unmatched capital shares are retracted. Preferred shares can also be redeemed by the company prior to the redemption date at a price, which until September 22, 2011 will be \$19.60 and which will decline by \$0.1875 each year to equal \$18.85 after September 22, 2014.
10. **Brookfield Soundvest Rising Distribution Split Trust** preferred securities can be redeemed with capital units under the annual retraction at least 15 days before the last business day in November. The redemption value will equal the Combined Value less redemption costs.
11. **Brompton Lifeco Split Corp** preferred shares can be surrendered at anytime for retraction and holder are entitled on a monthly basis to receive a retraction price per share equal to 96% of the lesser of (i) the NAV per Unit determined as of the relevant Retraction Date, less the cost to the Company of the purchase of a Class A Share for cancellation, and (ii) \$10.00. Under the Annual Concurrent retraction a holder can retract an equal number of Preferred Shares and Class A Shares on the April Retraction Date of each year for a retraction price per Unit to the NAV per Unit on that date.
12. **Brompton Split Banc Corp.** preferred shares can be retracted concurrently with capital shares on the annual retraction date each December. A holder tendering an equal number of preferred and capital shares will receive a price equal to NAV per Unit on that date, less any costs associated with the retraction. As for the monthly retraction holder will receive a retraction price per share equal to 96% of the lesser of (i) the NAV per Unit determined as of the relevant Retraction Date less the cost to the Company of the purchase of a Class A Share for cancellation, and (ii) \$10.00.

## Split Preferred Shares Retraction Features (cont'd)

13. **Canadian Banc Recovery Corp.** preferred shares can be retracted at any time on a monthly basis. Investors retracting preferred shares will receive an amount per preferred equal to the lesser of i) \$10.00; and ii) 96% of the NAV as of the retraction date less the cost to the Company of the purchase of a Class A share in the market for cancellation. Each July shareholders can concurrently retract a Preferred Share and a Capital Share on the retraction date and will be entitled to receive an amount equal to the NAV per Unit less any commissions and other costs (to a maximum of 1% of the NAV per unit) related to liquidating the Portfolio to pay such redemption amount.
14. **Canadian Financials & Utilities Split** preferred shares can be retracted on a monthly basis for the amount equal to 96% of the lesser of (i) the NAV per Unit determined as of the relevant Retraction Date less the cost to the Company of the purchase of a Class A Share for cancellation, and (ii) \$10.00. A holder of a Preferred Share may concurrently retract an equal number of Preferred Shares and Class A Shares on the Annual Retraction Date of each year (January) at a retraction price equal to the NAV per Unit on that date, less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the Portfolio required to fund such retraction.
15. **Canadian Life Companies Split** preferred shares can be retracted on a monthly basis for the amount per preferred share equal to the lesser of i) \$10.00; and ii) 96% of the Net Asset Value determined as of the retraction date less the cost to the company of the purchase of a Class A Share in the market for cancellation. Shareholders who concurrently retract a Preferred Share and a Class A Share on the Retraction Date in the month of March in each year will be entitled to receive an amount equal to the Net Asset Value per Unit calculated as of that date, less any related commissions and other costs (to a maximum of 1% of the Net Asset Value per Unit) related to liquidating the Portfolio to pay such redemption amount.
16. **Original Commerce Split Corp** preferred shares may be surrendered at any time for retraction and will be retracted on a monthly basis by which holders will receive an amount equal to the lesser of (i) \$10.00; and (ii) 96% of the net asset value per Unit determined as of the Retraction Date less the cost to the Company of the purchase of a Class A Share in the market for cancellation. Shareholders who concurrently retract a preferred Share and a Class A Share on the Retraction Date in the month of October in each year will be entitled to receive an amount equal to the net asset value per Unit calculated as of that date.
17. **The Copernican World Banks Split Inc.** preferred shares can be retracted monthly for the Preferred Share Net Amount Receivable on Monthly Redemption and redemptions are subject to a fee, as detailed in the prospectus. A holder of a preferred and capital share may concurrently retract both in November of each year for an amount equal to the Net Amount Receivable on Concurrent Annual Redemption and is also subject to a fee.
18. **The Copernican International Financial Split Inc.** preferred shares can be retracted monthly and holders will receive the Preferred Share Net Amount Receivable on Monthly Redemption and will be subject to a redemption fee, which is detailed in the prospectus. Holders of Preferred Shares also have an annual redemption right under which they may concurrently redeem an equal number of Preferred Shares and Class A Shares on the Redemption Date in June of each year. The amount received per Unit by the redeeming Shareholder for such a concurrent redemption will be equal to the Net Amount Receivable on Concurrent Annual Redemption and is also subject to a fee.
19. **Dividend 15 Split Corp.** preferred shareholders can retract their holdings on a monthly basis at the lesser of i) \$10.00; and ii) 96% of the NAV per unit less the cost to the Company of the purchase of a Class A share in the market and any related commissions and other costs. Under the Special Annual Concurrent Retraction a preferred shareholder can retract an equal amount of preferred and Class A shares in August each year for an amount equal to the NAV less any commissions and other costs related to liquidating the portfolio to pay such an amount.
20. **Dividend 15 Split Corp.II** preferred shareholders can retract their holdings on a monthly basis at the lesser of i) \$10.00; and ii) 96% of the NAV per unit less the cost to the Company of the purchase of a Class A share in the market. Holders may concurrently retract a preferred and Class A share in August for an amount equal to the NAV.
21. **Dividend Growth Corp.** preferred shareholders may retract their holdings on a monthly basis for an amount equal to 96% of the lesser of (i) the NAV per Unit determined as of the relevant Retraction Date, less the cost to the Company of the purchase of a Class A Share for cancellation, and (ii) \$10.00. A holder of a Preferred Share may concurrently retract an equal number of Preferred Shares and Class A Shares on a Quarterly Retraction Date at a retraction price equal to the NAV per Unit on that date, less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the Portfolio required to fund such retraction.
22. **5Banc Split Inc.** preferred shares are retractable at any time at a cash price equal to the amount by which 95% of the Unit Value exceeds the aggregate of i) the average cost to the company of purchasing a Capital Share in the market ; and ii) \$0.40. The Company can call shares at \$10.00 per share to the extent that unmatched capital shares have been tendered for retraction on the annual retraction date of December 15 each year.
23. **Faircourt Split Trust** preferred securities surrendered together with an equal number of Units for redemption will receive payment for each Combined Security equal to the Combined Value determined as of the Redemption Date, less redemption costs.
24. **Financial 15 Split Corp.** preferred shares can be retracted monthly for an amount per preferred share equal to the lesser of a) \$10.00 and b) 96% of the NAV per Unit less the cost to the Company to purchase Class A shares in the market. Each October shareholders can concurrently retract a preferred share with a Class A share on the Retraction Date for an amount equal to the NAV.

Split Preferred Shares Retraction Features (cont'd)

25. **Financial 15 Split Corp.** II preferred shares can be retracted any time for an amount per preferred share equal to the lesser of a) \$10.00 and b) 96% of the Net Asset Value per unit as of the Retraction Date less the cost to the company to purchase a Class A Share in the market for cancellation. Shareholders who concurrently retract a Preferred Share and a Class A Share on the Retraction Date in October will be entitled to receive an amount equal to the Net Asset Value per Unit on that date less any related commissions and other costs (to a maximum of 1% of the Net Asset Value per Unit).
26. **US Financial 15 Split Corp.** preferred shares can be retracted any time for an amount per preferred share equal to the lesser of a) \$10.00 and b) 96% of the Net Asset Value per unit as of the Retraction Date less the cost to the company to purchase a Class A Share in the market for cancellation. Shareholders who concurrently retract a Preferred Share and a Class A Share on the Retraction Date in February will be entitled to receive an amount equal to the Net Asset Value per Unit on that date less any related commissions and other costs (to a maximum of 1% of the Net Asset Value per Unit).
27. **Financial Preferred Securities Corp.** shareholders have the right to surrender shares for redemption commencing November 2007 on the last business day in November. Shareholders will receive a redemption price equal to Net Realized Proceeds per share calculated as of the Annual Redemption Date.
28. **First Asset CanBanc Split Corp** preferred shareholders may retract their shares on a monthly basis for an amount equal to the lesser of (i) 95% of the NAV per Unit determined as of the relevant Retraction Date less the pro rata portion of the Note then outstanding and less the cost to the Company of the purchase of a Class A Share for cancellation, and (ii) \$10.00. A holder of a Preferred Share may concurrently retract an equal number of Preferred Shares and Class A Shares on the second last Business Day of January of each year, commencing in January 2010, at a retraction price equal to the NAV per Unit on that date, less the pro rata portion of the Note then outstanding and less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the Portfolio required to fund such retraction.
29. **GlobalBanc Advanaged 8 Split Corp** preferred shares may be retracted at any time and holders will receive the Preferred Share Redemption Price. A holder of Preferred Shares may concurrently redeem an equal number of Preferred Shares and Class A Shares on the Redemption Date in November of each year. The amount received per Unit by the redeeming Shareholder for such a concurrent redemption will be equal to the Net Asset Value per Unit. Preferred Shares may also be redeemed by the Company at any time prior to the Final Redemption Date at a price (the "Premium Redemption Price") which, until June 15, 2008 will be equal to \$10.40 and which will decline by \$0.10 each year to be equal to \$10.00 after June 15, 2011.
30. **Kingsway Linked Return of Capital Units** (LROC units) can be redeemed currently at \$26.25 with the call price falling by \$0.25 each year in June thereafter to par value. The Kingsway LROC units will only be redeemed early if Kingsway ROCP exercises its option to redeem the Kingsway Note.
31. **Life & Banc Split Corp.** preferred shares can be retracted at any time but will be retracted only on a monthly Retraction Date. Shareholders retracting preferred shares will receive 96% of the lesser of i) the NAV per Unit less the cost to the company to purchase a capital share for cancellation, and ii) \$10.00. A preferred shareholder may concurrently retract an equal number of preferred and capital shares tendered at least ten business days before the Annual Retraction Date in November of each year at a retraction price equal to the NAV per Unit on that date, less any cost associated with the retraction.
32. **Lifeco Split Corp.** preferred shares are redeemable on the annual retraction date (July 31st of each year) to the extent that capital shares are tendered without a matching amount of preferred shares (two capital shares + one preferred share = one unit) and will receive the unit value. Preferred shares may also be retracted at any time with the holder receiving a cash value equal to the amount by which 95% of the Unit Value exceeds the aggregate of a) the average cost to the Corp. to purchase two capital shares in the market and b) \$1.00. Additionally, a holder can redeem two capital shares together with one preferred share and receive 95% of the Unit Value less \$1.00.
33. **Mulvihill Premium Canadian Bank** preferred shares are retractable monthly and holders will be entitled to receive a retraction price per share equal to 96% of the less of (i) the NAV per unit less the cost to the company of the purchase of a capital share in the market for cancellation and (ii) \$15.00. The cost of the purchase of a Class A Share will include the purchase price of the Class A Share, commission and such other costs, if any, related to the liquidation of any portion of the Portfolio to fund such purchase. A holder of Preferred Shares may concurrently retract an equal number of Preferred Shares and Class A Shares on the October Valuation Date of each year, at a retraction price equal to the NAV per Unit on that date.
34. **NB Split Corp** preferred share may be retracted at any time. A holder retracting Preferred Shares will receive a cash price per Preferred Share retracted equal to the amount, if any, by which 95% of the Unit Value exceeds the aggregate of (i) the average cost to the Company, including commissions, of purchasing two Capital Shares in the market; and (ii) \$0.40. Preferred Shares may also be redeemed by the Company at any time prior to the Redemption Date at a price (the "Premium Redemption Price") which, until February 15, 2008 will be equal to \$34.03 and which will decline by \$0.33 each year to be equal to \$32.72 after February 15, 2011. A holder who surrenders two Capital Shares together with one Preferred Share under a Special Annual Retraction occurring on December each year will receive an amount equal to the Unit Value.
35. **NewGrowth Corp.** preferred shares are redeemable annually on June 26th at \$13.70 to the extent the Class A capital shares are retracted under the special annual retraction. Retractable at any time at a price equal to the amount that 95% of the NAV of the unit exceeds the sum of the average cost of buying a capital share in the market including commissions and \$1.00. Under a concurrent annual retraction of a preferred and capital share the holder will receive full value of the unit.

## Split Preferred Shares Retraction Features (cont'd)

36. **Prime Dividend Corp.** preferred shares can be retracted at any time on a monthly basis and will receive an amount per preferred share equal to the lesser of i) \$10.00; and ii) 96% of the Net Asset Value determined as of the retraction date, less the cost to the company of the purchase of a Class A Share in the market for cancellation. Shareholders may concurrently retract a Preferred Share and a Class A Share on the annual retraction date will receive NAV less any related commissions and other costs (to a maximum of 1% of the NAV per unit), related to liquidating the Portfolio to pay such redemption amount.
37. **R Split III Corp** preferred shareholders can retract shares any time for an amount by which 95% of the Unit Value exceeds the aggregate of i) the average cost to the Company, including commissions, of purchasing two Capital shares in the market; and ii) \$1.00. Under a Concurrent Retraction a holder who surrenders two Capital shares together with one preferred share will receive an amount equal to 95% of the Unit Value less \$1.00. A holder who surrenders two Capital Shares together with one preferred share under a Special Annual Retraction (May) will receive an amount equal to the Unit Value.
38. **S Split Corp** shareholders have a fee associated with retracting a Preferred Share or Class A share prior to July 2014 which can be found in the prospectus. Preferred shareholder have a monthly retraction option and will be entitled to receive a price equal to 95% of the lesser of (i) the NAV per Unit determined as of the relevant Valuation Date less the cost to the Company of the purchase of a Class A Share in the market for cancellation; and (ii) \$10.00. A holder of Preferred Shares may concurrently retract an equal number of Preferred Shares and Class A Shares on the Annual Valuation Date (June) at a retraction price equal to the NAV per Unit on that date, less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the Company's portfolio required to fund such retraction.
39. **SL Split Corp** preferred shares maybe surrendered for retraction at any time for a cash price equal to the amount, if any, by which 95% of the Unit Value exceeds the aggregate of (i) the average cost to the Company, including commissions, of purchasing two Capital Shares in the market; and (ii) 1.00. Preferred Shares may also be redeemed by the Company at any time prior to the Redemption Date at a price (the "Premium Redemption Price") which, until January 31, 2009 will be equal to \$26.82 and which will decline by \$0.26 each year to be equal to \$25.78 after January 31, 2012. The Company may also redeem Preferred Shares on any Annual Retraction Payment Date at a price per share equal to \$25.78 to the extent that unmatched Capital Shares have been tendered for retraction under the Special Annual Retraction.
40. **Split Yield Corp. Class I** preferred shares can be retracted on a monthly basis at the lesser of 96% of i) the net asset value per unit less the cost of purchasing a Class II Preferred share and capital share in the market and ii) \$20.00. A holder of Class I preferred share may concurrently retract one Class I Preferred Share, one Class II Preferred Share and one Capital Share on the March Annual Valuation date each year and receive a price equal to the NAV per Unit on that date.
41. **Split Yield Class II** preferred shares can be retracted on a monthly basis at the lesser of 96% of i) the net asset value per unit less the cost of purchasing a Class I Preferred share and capital share in the market and ii) \$15.00. A holder of Class II preferred share may concurrently retract one Class I Preferred Share, one Class II Preferred Share and one Capital Share on the March Annual Valuation date each year and receive a price equal to the NAV per Unit on that date.
42. **TD Split Inc.** preferred shares are redeemable at par (\$10.00) on the annual retraction date, November 15th of each year, to the extent that capital shares are tendered for retraction without a preferred share. Preferreds are also retractable at any time with the holder receiving an amount by which 95% of the Unit Value exceeds the aggregate of i) the average cost to the Company, including commissions, of purchasing a capital share in the market; and ii) \$1.00.
43. **TDb Split Inc** 5.25% have a monthly retraction feature where holders will receive an amount per Preferred Share equal to the lesser of (i) \$10.00; and (ii) 96% of the net asset value per Unit determined as of the Retraction Date less the cost to the Company of the purchase of a Class A Share in the market for cancellation. Shareholders who concurrently retract a Preferred Share and a Class A Share on the Retraction Date in the month of December in each year will be entitled to receive an amount equal to the net asset value per Unit calculated as of that date.
44. **Top 10 Split Trust Preferred Securities** can be concurrently retracted with Capital Units under a monthly retraction for 95% of the combined value less \$0.50. Under the Special Annual Retraction, (on the last business day of December each year), a holder which surrenders a Capital Unit and one Preferred Security will receive the Combined Value.
45. **Utility Split Trust** preferred shareholders may surrender a Preferred Security for repayment together with a Capital Unit under the Concurrent Annual Redemption terms for proceeds equal to the redemption proceeds per combined security less the aggregate of all brokerage fees, commissions and other costs relating to the disposition of securities in the portfolio to fund such redemption.
46. **World Financial Split Corp.** preferred shares can be retracted at any time on a monthly valuation date and holders will receive 96% of the lesser of i) the NAV per Unit less the cost to the company of purchasing a Class A share in the market; and ii) \$10.00. Under the Annual Concurrent Retraction a holder may retract one preferred share together with one Class A share in June of each year for a price equal to the NAV on that date.

Source: Company Prospectuses.

## Appendices

### Appendix I – Preferred Share Glossary

**Cumulative:** If a company's Board of Directors votes not to pay a dividend on a cumulative preferred share when due, the unpaid dividends accumulate. All the accrued and unpaid dividends on the cumulative preferred share must be paid before dividends can be paid on the common. This type of preferred is considered a safer and more conservative investment than a non-cumulative share.

**Current Yield:** Yield calculated by dividing the annual dividend of the preferred share by its current price. This calculation is often used to compare perpetual preferred shares as they have no maturity date.

**DBRS:** Dominion Bond Rating Service—an agency that provides objective rating opinions on the credit worthiness of investments such as bonds and preferred shares. This firm's rating scale for preferred shares ranges from Pfd-1—superior credit quality, to Pfd-5—speculative credit quality, and includes the rating D (defaulted) for preferred shares which have stopped paying dividends. Their website provides free rating information and commentary. ([www.dbrs.com](http://www.dbrs.com))

**Dividend Gross-up:** Canadian corporations pay dividends out of after-tax income. In order to integrate the taxes paid by corporations and individuals and avoid double taxation, dividends received by individuals are “grossed-up” by 25% to increase the amount on which tax is paid. The dividend tax credit is then applied to the “grossed-up” amount to refund an amount equal to the tax that is paid, in theory, by the corporation paying the dividend.

**Downside Protection:** The amount by which the market value of the underlying portfolio may fall before the ability to repay the par value of the preferred share is impeded. It is calculated as follows: (Net Asset Value of Capital share / Net Asset Value Per Unit).

**Fixed Rate:** Also known as a **straight perpetual preferred**, these shares pay a fixed dividend and their share price will move inversely to interest rates. These preferreds tend to behave like long dated bonds in a period of falling interest rates—the fixed dividend becomes more attractive as rates fall.

**Non-cumulative:** Dividends on this type of preferred share do not accrue if the Board of Directors chooses not to pay dividends when due. Non-cumulative preferred shares are generally less attractive than cumulative preferreds. Most financial services preferred shares are non-cumulative.

**Par Value:** The stated face value of a preferred share is usually \$25.00. Par value of a preferred share indicates the dollar amount of assets each share would be entitled to should the company be liquidated.

**Pre-Tax Interest Equivalent Yield:** Pre-tax interest equivalent yield equates the dividend yield on a preferred to a yield that is comparable to that on a bond. Since dividend income and interest income are taxed at different rates, the dividend yield should be adjusted by the differential in dividend and income tax rates (the pre-tax interest equivalent multiplier) to produce a pre-tax interest equivalent yield. This is the pre-tax yield required on a bond to provide the same yield as that on a preferred share (of similar maturity) on an after-tax basis. For example, a preferred share trading at par with a dividend yield of 4% has a pre-tax interest equivalent yield of 5.24% in Ontario ( $4.00\% \times 1.31$ , the pre-tax interest equivalent multiplier for Ontario). Therefore, a bond of similar credit quality would have to offer a yield of 5.24% to provide the same after tax yield as a preferred share yielding 4.00%.

**Ratchet Mechanism:** A ratchet mechanism is intended to keep the price of a floating rate preferred share within a certain range of its par value. This is achieved by adjusting the dividend higher if the share price falls substantially below par or reducing the dividend if the price rises above par.

**Redeemable:** Also known as callable, this feature allows the issuer to redeem the preferred share at a price on a specified date, occasionally at a premium to par value.

**S&P:** Standard and Poor's—an agency which gives objective rating opinions on bonds and preferred shares. Its rating scale on preferred shares ranges from the highest rating P-1 High (securitized preferred shares), to P-5 (speculative with poor asset coverage). Most bank preferred shares carry a P-1 Low rating which would equate to an A- rating in the bond rating scale. Their website provides ratings on many Canadian issuers. ([www.standardandpoors.com](http://www.standardandpoors.com))

**Soft Redeemable:** This feature allows the issuer to redeem the preferred shares at the various call dates and pay either cash or common shares for redemption.

**Yield to Retraction:** Yield to retraction (or yield to maturity) describes the return that includes dividends and any capital gains or losses that may be realized by the investor if the shares are held to the retraction or maturity date.

**Yield to Worst Call:** Yield to worst call refers to the lowest yield an investor will earn at the given market price (before commissions) if the issuer redeems the preferred share at an early redemption date (also known as the “call” date).

Appendix II – Tax Rate Tables

Marginal Tax Rates for Interest – Year 2011							
Province	Brackets (\$)	Up to \$41,544	Brackets (\$)	\$41,544 to \$83,088	Brackets (\$)	\$83,088 to \$128,800	\$128,800 and over
Alberta	0	25.00%	41,544	32.00%	83,088	36.00%	39.00%
British Columbia	36,146	22.70%	83,001	34.29%	100,787	40.70%	43.70%
	0	20.06%	72,293	32.50%	83,088	38.29%	
Manitoba	31,000	27.75%	67,000	39.40%	83,088	43.40%	46.40%
	0	25.80%	41,544	34.75%			
New Brunswick	37,150	27.10%	74,300	34.40%	120,796	40.30%	43.30%
	0	24.10%	41,544	34.10%	83,088	38.40%	
Newfoundland	31,904	27.50%	63,807	35.30%	83,088	39.30%	42.30%
	0	22.70%	41,544	34.50%			
Nova Scotia	29,590	29.95%	59,180	38.67%	93,000	43.50%	46.50%
	0	23.79%	41,544	36.95%	83,088	42.67%	
Ontario			78,361	39.41%	83,088	43.41%	46.41%
	37,774	24.15%	75,550	35.39%			
	0	20.05%	66,514	32.98%			
Prince Edward Island	31,984	28.80%	63,969	38.70%	98,145	44.37%	47.37%
	0	24.80%	41,544	35.80%	83,088	42.70%	
Quebec	39,060	32.53%	78,120	42.37%	83,088	45.71%	48.22%
	0	28.53%	41,544	38.37%			
Saskatchewan	40,919	28.00%	41,544	35.00%	116,911	41.00%	44.00%
	0	26.00%		83,088	39.00%		
Yukon	0	22.04%	80,966	32.16%	83,088	38.01%	42.40%
			41,544	31.68%			

*Note: Rates are legislative  
Source: TaxTips.ca*

## Marginal Tax Rates for Dividends– Year 2011

Province	Brackets (\$)	Up to \$41,544	Brackets (\$)	\$41,544 to \$83,088	Brackets (\$)	\$83,088 to \$128,800	\$128,800 and over
Alberta	0	-2.02%	41,544	7.85%	83,088	13.49%	17.72%
British Columbia	36,146	-5.70%	83,001	10.64%	100,787	19.68%	23.91%
	0	-9.42%	72,293	8.12%	83,088	16.28%	
Manitoba	31,000	0.44%	67,000	16.87%	83,088	22.51%	26.74%
	0	-2.31%	41,544	10.31%			
New Brunswick	37,150	-1.88%	74,300	8.41%	120,796	16.73%	20.96%
	0	-6.11%	41,544	7.99%	83,088	14.05%	
Newfoundland	31,904	0.09%	63,807	11.09%	83,088	16.73%	20.96%
	0	-6.68%	41,544	9.96%			
Nova Scotia	29,590	6.58%	59,180	18.87%	93,000	25.68%	29.91%
	0	-2.11%	41,544	16.45%	83,088	24.51%	
Ontario			78,361	18.32%			28.19%
	37,774	1.85%	75,550	15.90%	83,088	23.96%	
	0	-3.93%	66,514	12.50%			
			41,544	11.72%			
Prince Edward Island	31,984	2.63%	63,969	16.59%	98,145	23.10%	27.33%
	0	-3.01%	41,544	12.50%	83,088	22.23%	
Quebec	39,060	9.73%	78,120	23.61%	83,088	28.32%	31.85%
	0	4.09%	41,544	17.97%			
Saskatchewan	40,919	0.80%	41,544	10.67%	116,911	19.13%	23.36%
	0	-2.02%			83,088	16.31%	
Yukon	0	-13.36%	80,966	-0.15%	83,088	8.10%	14.28%
			41,544	0.23%			

*Note: Rates are legislative*  
*Source: TaxTips.ca*

## Multipliers for Highest Tax Bracket Investors - Year 2011

Province	Factor	Province	Factor
Alberta	1.3489	Nova Scotia	1.3101
British Columbia	1.3515	Ontario	1.3400
Manitoba	1.3668	Prince Edward Island	1.3808
New Brunswick	1.3940	Quebec	1.3161
Newfoundland	1.3698	Saskatchewan	1.3686
		Yukon	1.4882

*Note: Rates are legislative*  
*Source: TaxTips.ca*

Appendix III – Proposed Tax Rate Tables for 2012

Proposed Marginal Tax Rates for Interest – Year 2012							
Province	Brackets (\$)	Up to \$42,707	Brackets (\$)	\$42,707 to \$85,414	Brackets (\$)	\$85,414 to \$132,406	\$132,406 and over
Alberta	0	25.00%	42,707	32.00%	85,414	36.00%	39.00%
British Columbia	37,013	22.70%	84,993	34.29%	103,205	40.70%	
	0	20.06%	74,028	32.50%	85,414	38.29%	43.70%
			42,707	29.70%			
Manitoba	31,000	27.75%	67,000	39.40%	85,414	43.40%	46.40%
	0	25.80%	42,707	34.75%			
New Brunswick	38,190	27.10%	76,380	34.40%	124,718	40.30%	43.30%
	0	24.10%	42,707	34.10%	85,414	38.40%	
Newfoundland	32,893	27.50%	65,785	35.30%	85,414	39.30%	42.30%
	0	22.70%	42,707	34.50%			
Nova Scotia	29,590	29.95%	59,180	38.67%	93,000	43.50%	46.50%
	0	23.79%	42,707	36.95%	85,414	42.67%	
Ontario			80,963	39.41%			
	39,020	24.15%	78,043	35.39%	85,414	43.41%	46.41%
	0	20.05%	68,719	32.98%			
			42,707	31.15%			
Prince Edward Island	31,984	28.80%	63,969	38.70%	98,145	44.37%	47.37%
	0	24.80%	42,707	35.80%	85,414	42.70%	
Quebec	40,100	32.53%	80,200	42.37%	85,414	45.71%	48.22%
	0	28.53%	42,707	38.37%			
Saskatchewan	42,065	28.00%	42,707	35.00%	120,185	41.00%	44.00%
	0	26.00%			85,414	39.00%	
Yukon	0	22.04%	81,497	32.16%	85,414	38.01%	42.40%
			42,707	31.68%			

*Note: These are current rates but while proposed are legislative and subject to change following new provincial rate announcements.*  
*Source: TaxTips.ca*

Proposed Marginal Tax Rates for Dividends– Year 2012							
Province	Brackets (\$)	Up to \$42,707	Brackets (\$)	\$42,707 to \$85,414	Brackets (\$)	\$85,414 to \$132,406	\$132,406 and over
Alberta	0	-0.03%	42,707	9.63%	85,414	15.15%	19.29%
British Columbia	37,013	-2.87%	84,993	13.12%	103,205	21.97%	26.11%
	0	-6.51%	74,028	10.65%	85,414	18.64%	
Manitoba	31,000	2.39%	67,000	18.46%	85,414	23.98%	28.12%
	0	-0.30%	42,707	12.05%			
New Brunswick	38,190	0.11%	76,380	10.18%	124,718	18.33%	22.47%
	0	-1.03%	42,707	9.77%	85,414	15.70%	
Newfoundland	32,893	2.04%	65,785	12.80%	85,414	18.33%	22.47%
	0	-4.58%	42,707	11.70%			
Nova Scotia	29,590	8.39%	59,180	20.42%	93,000	27.09%	31.23%
	0	-0.11%	42,707	18.05%	85,414	25.94%	
Ontario			80,963	19.88%			29.54%
	39,020	3.77%	78,043	17.52%	85,414	25.40%	
	0	-1.89%	68,719	14.19%			
Prince Edward Island	31,984	4.53%	63,969	18.19%	98,145	24.56%	28.70%
	0	-0.99%	42,707	14.19%	85,414	23.71%	
Quebec	40,100	11.16%	80,200	24.74%	85,414	29.35%	32.81%
	0	5.64%	42,707	19.22%			
Saskatchewan	42,065	2.73%	42,707	12.39%	120,185	20.07%	24.81%
	0	-0.03%			85,414	17.91%	
Yukon	0	-11.12%	80,966	1.81%	85,414	9.88%	15.93%
			42,707	2.18%			

*Note: These are current rates but while proposed are legislative and subject to change following new provincial rate announcements.*  
*Source: TaxTips.ca*

Proposed Multipliers for Highest Tax Bracket Investors - Year 2012			
Province	Factor	Province	Factor
Alberta	1.3231	Nova Scotia	1.2788
British Columbia	1.3124	Ontario	1.3148
Manitoba	1.3410	Prince Edward Island	1.3547
New Brunswick	1.3674	Quebec	1.2976
Newfoundland	1.3437	Saskatchewan	1.3427
		Yukon	1.4595

*Note: These are current rates but while proposed are legislative and subject to change following new provincial rate announcements.*  
*Source: TaxTips.ca*

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# Notes

**Important Disclosures – as of 01/31/2012**

The author(s) of the report own(s) securities of the following companies.

**Bank of Nova Scotia,**

The supervisors of the Portfolio Advisory Group own securities of the following companies.

**Bank of Nova Scotia,**

Scotia Capital Restriction -- U.S. (American) **Bank of Nova Scotia**

Thomas C. O'Neill is a director of BCE Inc and is a director of the Bank of Nova Scotia. **BCE Inc.**

Ronald Brenneman is a director of BCE Inc and is a director of the Bank of Nova Scotia. **BCE Inc.**

Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months. **Bank of Nova Scotia, BCE Inc., Brookfield Asset Management, Intact Financial Corporation, Manulife Financial Corporation, Sun Life Financial Inc.**

Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months. **BCE Inc., Brookfield Asset Management, Intact Financial Corporation, Manulife Financial Corporation, Sun Life Financial Inc.**

Scotia Capital (USA) Inc. or its affiliates expects to receive or intends to seek compensation for investment banking services in the next 3 months. **Manulife Financial Corporation**

Scotia Capital (USA) Inc. had an investment banking services client relationship during the past 12 months. **Bank of Nova Scotia**

Scotia Capital Restriction **Bank of Nova Scotia**

Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of the following issuer(s): **BCE Inc., Brookfield Asset Management, Manulife Financial Corporation, Sun Life Financial Inc.**

The Bank of Nova Scotia is the parent company and a related issuer of Scotia Capital Inc. **Bank of Nova Scotia**

The Fundamental Research Analyst/Associate has visited material operations of the following issuer(s): **BCE Inc., Manulife Financial Corporation, Sun Life Financial Inc.**

Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, the following issuer(s): **Bank of Nova Scotia, BCE Inc., Brookfield Asset Management, Intact Financial Corporation, Manulife Financial Corporation, Sun Life Financial Inc.**

Comparative Canadian Bank Information				
Bank	Symbol	Scotia Capital Recommendation	Risk Rating	1 Yr Target
Bank of Montreal	BMO	3-Sector Underperform	Low	\$66.00
Bank of Nova Scotia	BNS	2-Sector Perform	Low	\$62.00
CIBC	CM	1-Sector Outperform	Low	\$93.00
National Bank	NA	3-Sector Underperform	Low	\$82.00
Royal Bank	RY	1-Sector Outperform	Low	\$63.00
Toronto-Dominion Bank	TD	1-Sector Outperform	Low	\$93.00

## ScotiaMcLeod

ABBOTSFORD (604) 864-3750	MARKHAM (905) 947-0933	ST. CATHARINES (905) 641-7700
BARRIE (705) 725-0300	MEDICINE HAT (403) 529-6565	ST. JOHN'S (709) 576-1305
BELLEVILLE (613) 968-6459	MISSISSAUGA (905) 848-1300	SUDBURY (705) 674-8558
BRAMPTON (905) 796-2424	MONCTON (506) 867-0700	THUNDER BAY (807) 626-5180
BRANDON (204) 729-3362	MONTRÉAL (514) 287-3600	TORONTO – Scotia Plaza 11th Floor (416) 862-3110
BRIDGEWATER (902) 543-8293	MONTRÉAL Capital Branch (514) 287-2900	TORONTO – Scotia Plaza Head Office Branch 15th Floor (416) 863-7272
CALGARY (403) 298-4000	NEW GLASGOW (902) 755-8509	TORONTO – Scotia Plaza 48th Floor (416) 945-4048
CAMBRIDGE (519) 740-4300	NEW LISKEARD (705) 647-2044	TORONTO – Eglinton (Uptown) (416) 945-4840
CHARLOTTETOWN (902) 566-3225	OAKVILLE – Church St. (905) 377-6301	TORONTO Personal Inv. Management Group (416) 865-6400
COMOX (250) 890-3570	OAKVILLE – Kerr St. (905) 842-9000	TORONTO – North Toronto (416) 226-9505
CORNER BROOK (709) 637-4747	OTTAWA (613) 563-0991	TORONTO – Rosedale (416) 335-6340
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FREDERICTON (506) 450-6465	PETERBOROUGH (705) 876-1373	VANCOUVER (604) 661-7400
GRAND PRAIRIE (780) 513-3505	POINTE CLAIRE (514) 428-8400	VANCOUVER – North (604) 981-7600
GUELPH (519) 763-0371	PRINCE GEORGE (250) 614-2080	VANCOUVER – West (604) 913-7000
HALIFAX (902) 420-2220	QUEBEC – Montreal Immigrant Investor Program (514) 287-4504	VANKLEEK HILL (613) 678-3475
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KANATA (613) 271-6600	REGINA (306) 352-5005	VICTORIA (250) 389-2110
KELOWNA (250) 868-5500	RICHMOND (604) 713-7888	WHITBY (905) 444-4500
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KINGSTON (613) 531-6300	SALMON ARM (250) 804-2125	WINDSOR (519) 258-1050
KITCHENER (519) 571-3700	SASKATOON (306) 665-5300	WINNIPEG (204) 944-0025
LAVAL (450) 680-3100	SCARBOROUGH (416) 296-0043	YARMOUTH (902) 742-0040
LETHBRIDGE (403) 317-4835	SIDNEY (250) 656-9393	
LONDON (519) 660-3214	SOUTH GRANVILLE (604) 731-7744	

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