

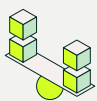


# Split Share Funds Explained

# What are Split Shares?

Split share funds (“Splits”) are unique investment corporations that provide opportunities for both conservative and growth-oriented investors. Splits typically invest in a pool of dividend paying companies and divvy up or “split” the dividends paid by underlying stocks from any capital appreciation from that same pool of securities. Splits reallocate these two benefits (dividends and capital appreciation) between the two separate exchange vehicles or share types: a Preferred share and a Class A share. While the preferred share investors get a fixed, committed dividend, the class A investors get the residual dividend (if any) and the growth in underlying stocks.

## The Benefits of Investing in Splits



### Match to your portfolio's needs

Split share investments help investors tailor their portfolios to match their risk tolerance and investment goals. Class A shares offer higher return potential but with increased market volatility, suiting those seeking capital appreciation. Preferred shares provide stable income without the exposure to market/price fluctuations, appealing to conservative, income-focused investors.



### Income stability and predictability

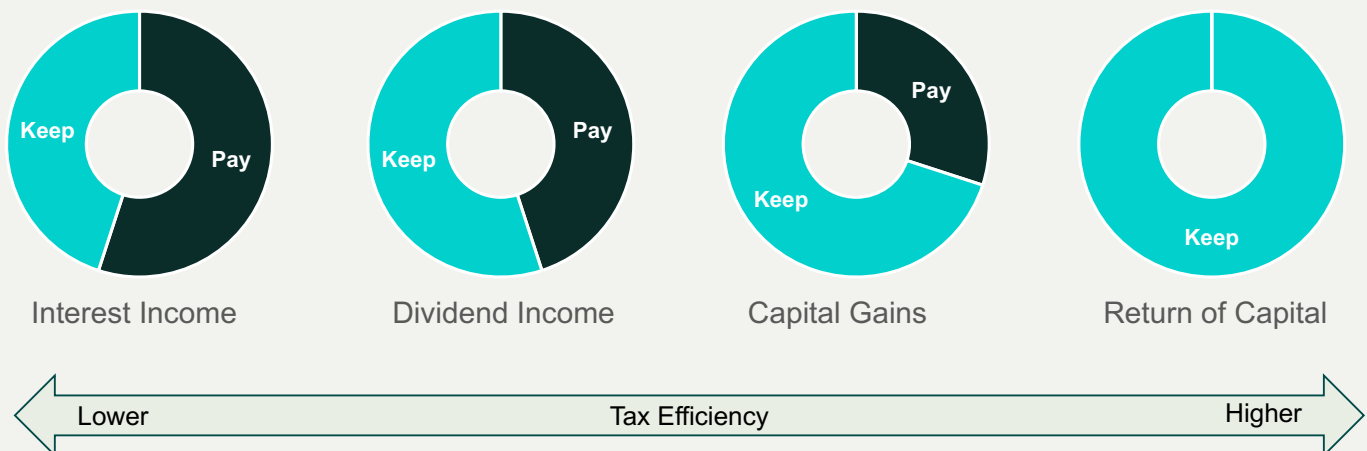
Preferred shares in split share investments typically come with fixed dividend payments, providing predictable, steady income. This is appealing to investors relying on dividends for regular cash flow or seeking a reliable income source.



### More tax efficient distributions and growth

The dividends offered by preferred shares usually receive preferential tax treatment compared to interest income, enhancing the tax efficiency of split share investments for income-focused investors. In jurisdictions like Canada, Capital Gains realized by the Class A shares also receive favorable tax treatment compared to regular income.

## Tax treatment of Investment Distributions by Type

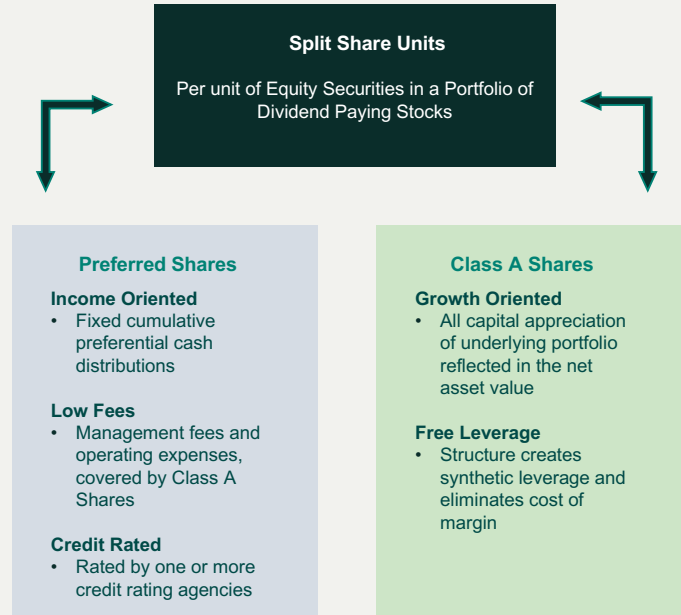


For illustrative purposes only. Tax situation of each investor is unique, and it is recommended to seek tax advice from a professional tax advisor.

# How do Splits Work?

A Split Share Corp. is an investment corporation that takes a portfolio of stocks and splits out the dividends and growth components into two separate investment vehicles, or share classes:

- Preferred shareholders receive fixed quarterly dividend payments
- Class A shareholders receive all the appreciation of the equities held within the Split Share Corp. along with any dividends produced by the preferred shares beyond the fixed dividend commitment to Preferred shareholders
- Both Preferred shares and Class A shares are exchange traded and can be purchased by retail investors and investment advisors



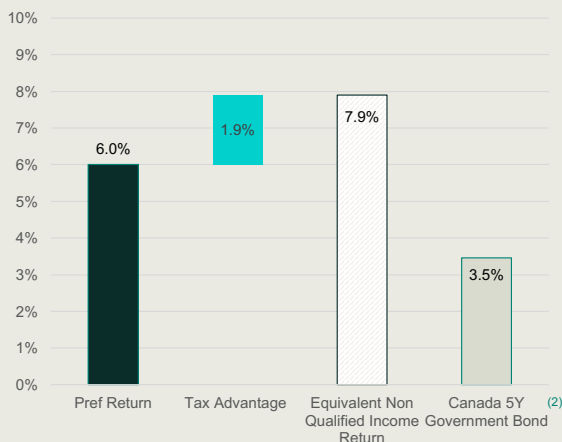
For illustrative purposes only.

## Split Corp Advantages

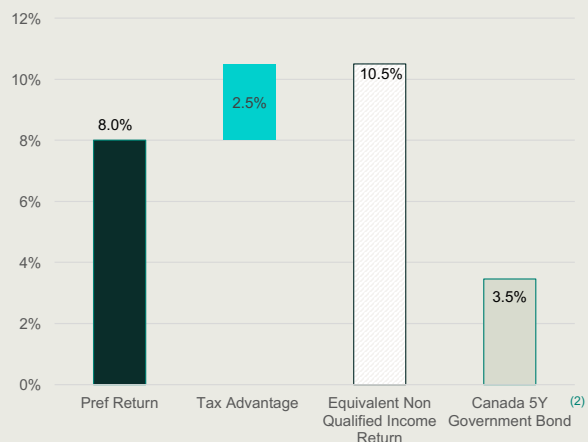
### 1. Tax-Efficiency

Preferred share Investors may enjoy the benefit of higher after-tax returns vs. investors earning non-qualified income from investments that generate interest income from savings accounts or fixed income instruments.

6% Pref Shares vs. Pre-tax Interest Income Equivalent Rate <sup>(1)</sup>



8% Pref Shares vs. Pre-tax Interest Income Equivalent Rate <sup>(1)</sup>



For illustrative purposes only.

<sup>1</sup> Based on highest tax bracket in Ontario for 2024 (39% dividend tax rate and a 53.53% income tax rate).

<sup>2</sup> Canada 5Y Government Bond as of July 8, 2024.

## 2. Capitalizing on Free Leverage

Growth Investors can use Class A Shares to enhance their return potential through the “free” leverage created by the Split Corp’s structure. The best way to understand the leverage feature is by way of example (Figure 1).

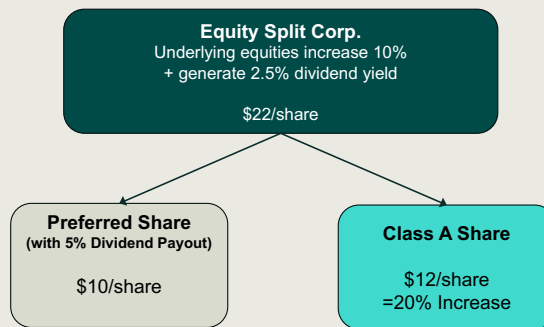
Assume that the Spit Share Corp. was issued at a price of \$20/share. In this scenario, once split, each Class A share would be worth \$10 and each Preferred share would be worth \$10. Further, let’s assume the minimum dividend to be paid to the Preferred Shareholders is 5% per year.

Lastly, if we were to assume that the basket of equities underlying the Split Share appreciated by 10% and generated a dividend yield of 2.5%, the overall Split Share Corp would now be worth \$22/share. Since the full dividend yield would go to the Preferred shares to cover the agreed-to preferred share dividend of 5%, the full 10% growth would go to the Class A share and this is where you see the structural leverage (see Figure 1).

In this scenario, the Class A share is now worth \$12 (\$10 + full \$2 increase), meaning that the Class A shares appreciated 20%.

The reverse can also be true, meaning that the leverage can magnify any losses assigned to the Class A shares. This is where due diligence of the underlying stocks is important to your overall assessment of the investment opportunity.

**Figure 1. Split Share Corp with underlying price appreciation of 10% and underlying dividend yield of 2.5%**



For illustrative purposes only. Scenarios presented is gross of fees and fund expenses.

Two examples which examine the 5-year impact of the Split Corp’s structural leverage and dividend yields can be seen in Figure 2, below. These examples compare the returns of Class A shares with underlying stock performance over a holding period of up to 5 years.

**Figure 2.**

**Illustrative Scenario 1:**  
 Pref Share Yield: 8%  
 Underlying Portfolio provides dividend yield of 4% & stocks appreciate by 12%



**Illustrative Scenario 2:**  
 Pref Share Yield: 8%  
 Underlying Portfolio provides dividend yield of 4% & stocks appreciate by 15%



Note: Charts shown are cumulative returns over 5 years, assuming \$1 B raise and dividends are reinvested.

<sup>1</sup> Returns for Class A Shares after paying 8.0% committed distribution to Preferred Shares. Returns are net of MER. MER is taken at 50 bps of the total funds managed but is only paid by Class A Share investors. The first year returns of Class A Shares are also net of the underwriting fees assumed at 4.25% of all the funds raised in the initial offering.

<sup>2</sup> Underlying Stocks returns are calculated net of a 1% account management fee.

# Established Product with Long Track Record in Canada

<b>30+ Years</b> existed in Canada since 1990s	Split share corporations are an established product and have existed in Canada since 1990s.
<b>\$18.8B+</b> Split Corp market size <sup>(1)</sup>	The market has grown significantly and now split share corporations have a total market size exceeding \$18.8 Billion <sup>(1)</sup>
<b>\$3.0B+</b> raised since 2021 from Split Share Corps <sup>(2)</sup>	Capital is raised through all major Canadian Investment Banks via IPOs and secondary offerings, and all Preferred Shares are credit rated by Morningstar DBRS

<sup>1</sup> Morningstar DBRS Split Share Funds Quarterly Report – Q1 2024.

<sup>2</sup> Morningstar DBRS Split Share Funds Quarterly Report – 2023, 2022, 2021.

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