

# Split Share Funds

*Quadravest Capital Management*

## What are split share funds?

Split share funds are unique investment corporations that offer two distinct classes of shares and typically invest in an underlying portfolio of dividend paying companies.

The two distinct classes of shares are usually classified as 1) Capital shares - sometimes known as Class A shares and 2) Preferred shares - sometimes known as Priority Equity shares. Both classes of shares trade separately on the TSX.

Typically an investor buys a stock to receive dividends and to take advantage of any gains on a stock price.

Split share funds split or reallocate these two benefits between the two separate classes of shares. Preferred shares receive fixed, cumulative monthly payments. Capital shares capture the movement of the underlying stocks, but in a more magnified way than if an investor owned the underlying portfolio of securities directly. This magnification of return is commonly known as "leverage".

As an example, if the underlying stocks go up 5%, the Capital share's value

increases more than 5%. That is because the Capital shares receive all growth in the fund, even on the Preferred share portion.

Unlike a traditional split share fund, Quadravest designs Splits where the Capital shares receive a steady monthly dividend (as well as participating in a levered way on the return of the portfolio securities). Their dividend is predominately funded by the additional income earned from Quadravest's covered call writing program.

### **One portfolio, two classes of shares:**

- **Preferred Shares** (Priority Equity) - *fixed, cumulative monthly payments, with repayment of issue price taking priority at windup.*
- **Capital Shares** (Class A) - *targeted monthly payments with potential for special payments plus benefits from any upside in the portfolio.*

## Which share is for me?

The Preferred shares are more conservative and have a steady income stream due to their fixed, cumulative monthly payments. Payments are usually in the form of eligible Canadian dividends which are taxed at a lower rate than other types of income. All Quadravest splits have a windup date. Preferred shares have a priority claim ahead of the Capital shares on the fund's assets at windup. Some even have a Priority Equity Plan to ensure full repayment at windup. Preferred shares however do not benefit from any growth in the underlying stocks. The market price of a Preferred share tends to be

fairly steady and investors have a monthly and annual redemption feature. All Quadravest Preferred shares are also non-callable so you will never be forced to give up your shares for less than their par value.

A knowledgeable investor, not adverse to the ups and downs of the market, who might be bullish on the underlying portfolio, may be interested in Capital shares. Buying a Capital share of a Split rather than buying the underlying stocks yourself can result in magnified gains due to the leveraging. The monthly payments to Capital shares are a target (not

fixed). They can be missed if the portfolio declines but on the other hand, if the portfolio has realized gains, the Capital shares may be entitled to special distributions on top of the monthly payments. At windup the Capital shares receive the balance of the portfolio (net asset value) after the Preferred shares receive their original issue price. So if the stocks held in the fund have increased in value, the Capital shares would receive more than their issue price at windup.

## How do you fund the monthly payments?

The dividends received on the stocks held in a Split Share Fund's portfolio are used to fund the fixed, cumulative monthly payments made to the Preferred shares.

Any excess dividend income plus option premium received from the covered call writing are used to fund the targeted monthly payments to the Capital shares.

The objective is to pay

mostly Canadian eligible dividend income to the Preferred share and a combination of income types to the Capital share (dividends, capital gains).

In either case, the monthly payments are very tax efficient compared to other income oriented investments. In other words, you get to keep more of your money.

Because of the option premium from the covered

call writing and because both sides of the split are working to generate income, monthly payments received are higher than if you bought the underlying common stocks held in the portfolio on your own.

Payments made to Quadravest Splits are monthly versus most common stocks which are quarterly.



*“...monthly payments received are higher than if you bought the underlying common stocks held in the portfolio on you own’*

## What should I consider before buying?

Before purchasing a Capital or Preferred share of a Quadravest Split you should consider which sector you are interested in.

Underlying portfolios invest in solid blue chip companies but the holdings vary from Fund to Fund. Quadravest has Split share funds that focus on groups such as US Financials, Canadian Banks,

Canadian Life Insurance Companies, Canadian dividend yielding Companies or single stocks such as CIBC, Manulife or Toronto-Dominion Bank.

Buying a Capital or Preferred share of a Quadravest Split is an efficient way to invest in a sector or an individual security you like. All shares trade on the TSX and can be

purchased in the same manner as any other stock trading on the exchange.

You may also want to consider the issue size, the windup date, whether the shares are trading at a premium or discount to the net asset value before deciding which Split is for you.

## Quadravest Split Funds

### Fund

Financial 15 Split I and II  
US Financial 15 Split  
Dividend 15 Split I and II  
Cdn Life Companies Split  
Prime Rate Plus  
Prime Dividend  
Commerce Split  
M-Split  
TDb Split

### Sector

North American financials  
US financials  
Cdn dividend yielding  
Canadian life companies  
Canadian banks  
Cdn banks, utilities, life companies  
CIBC common  
Manulife Financial common  
Toronto-Dominion Bank common

### Web

[www.financial15.com](http://www.financial15.com)  
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[www.dividend15.com](http://www.dividend15.com)  
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