

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 classified as 1) Class A shares and 2) Preferred 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. Class A 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 Class A share's value increases more than 5%.

That is because the Class A shares receive all growth in

the fund, even on the Preferred share portion.

Unlike a traditional split share fund, Quadravest designs Splits where the Class A shares receive a steady monthly dividend when the net asset value is above a specified threshold (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 the covered call writing program.

One portfolio, two classes of shares:

- **Preferred Shares** - *fixed, cumulative monthly payments, with repayment of issue price taking priority at windup.*
- **Class A Shares** - *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 Class A shares on the fund's assets 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 Class A shares. Buying a Class A share of a Split rather than buying the underlying stocks yourself can result in magnified gains due to the leveraging. The monthly payments to Class A 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 Class A shares may be entitled to special distributions on top of the monthly payments. At windup the Class A 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 Class A 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 Class A shares.

The objective is to pay

mostly Canadian eligible dividend income to the Preferred share and a combination of income types to the Class A 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 Class A 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, and Canadian dividend yielding Companies.

Buying a Class A or Preferred share of a Quadravest Split is an efficient way to invest in a sector or group of stocks you like. All shares trade on the TSX and can be purchased in the same manner as any other stock trading on the stock 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
Canadian Banc Recovery
Prime Dividend

Sector

North American financials
US financials
Cdn dividend yielding
Canadian life companies
Canadian banks
Cdn banks, utilities, life companies

Web

www.financial15.com
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