

Canadian Preferred Shares: Institutional Analysis

Classification: Equity Hybrid Security

Risk Profile: Moderate-Low

Target Investor: Income-focused, capital preservation, institutional allocators

Date: February 2026

Executive Summary

Canadian preferred shares represent one of the most sophisticated preferred markets globally. The rate reset structure—pioneered in Canada—offers unique yield opportunities but requires deep structural understanding. For yield-focused Canadian investors, preferreds provide tax-advantaged income in a market dominated by high-quality financial issuers.

I. Canadian Market Structure

Unique Characteristics

Canadian preferreds differ materially from US counterparts:

Feature	Canada	US
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Dominant Structure	Rate Reset (70%+ of market)	Fixed-Rate Perpetual
Dividend Tax Treatment	Eligible for dividend tax credit	Qualified dividend treatment

| **Typical Par Value** | \$25 CAD | \$25 USD |

| **Call Protection** | 5 years standard | 5 years standard |

| **Rate Reset Mechanism** | Common | Rare |

| **Minimum Rating** | Often P-1/P-2 (DBRS) | Investment grade typical |

Market Composition by Issuer Type

- **Banks (Big 6):** 55%
 - **Insurance Companies:** 18%
 - **Utilities:** 12%
 - **REITs:** 10%
 - **Pipelines/Energy:** 4%
 - **Other:** 1%
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II. Types of Canadian Preferred Shares

1. Perpetual Preferreds (Traditional)

Structure: Fixed dividend forever, no maturity

Market Share: ~15% of Canadian market

Best For: Falling rate environment, income stability

Example Issues:

- RY.PR.F (Royal Bank) — 5.00% perpetual
- TD.PR.W (TD Bank) — 4.35% perpetual

Risk Profile: Highest duration sensitivity, most volatile pricing

2. Fixed Reset Preferreds (Dominant Structure)

Structure:

- Fixed dividend for 5 years
- Resets at Government of Canada 5-year bond yield + spread
- Typically 5-year reset intervals

Example:

Issue: BMO.PR.K

Current Yield: 6.25%

Reset Spread: +3.05% over 5-year GoC

Next Reset: August 2028

If GoC 5-year at reset = 3.50%

New dividend = 3.50% + 3.05% = 6.55%

Market Share: ~55% of Canadian preferred market

Critical Analysis Point: The **spread over GoC bonds** is the key value driver. Wider spreads = higher reset yields = more attractive.

3. Floating Rate Preferreds

Structure: Dividend adjusts quarterly based on short-term rates

Benchmark: Typically 3-month Treasury Bill + spread

Market Share: ~10%

Best For: Rising rate environment

Example: NA.PR.H (National Bank) — Quarterly floating

4. Fixed-to-Floating Preferreds

Structure: Fixed for 5 years, then converts to floating

Market Share: ~15% and growing

Best For: Uncertain rate outlook

Example:

Issue: CM.PR.S (CIBC)

Years 1-5: Fixed 5.25%

Year 6+: 3-month T-bill + 3.50% (quarterly resets)

5. Split Share Corporations (Unique to Canada)

Structure: Corporation holds common shares of a single company, issues:

- Preferred shares (fixed dividend, priority claim)
- Capital shares (residual claim, equity upside)

Examples:

- DFN (Dividend 15 Split Corp) — holds bank stocks
- FFN (North American Financial 15) — holds financials

Warning: Complex structures, liquidity risk, leverage embedded. **Not recommended for conservative investors.**

III. The "Preferred Share Reset Crisis" (2020)

What Happened

In March 2020, Canadian preferred shares crashed 40-50% in weeks.

Root Cause:

- 1. GoC 5-year yields plummeted to 0.25%
- 2. Reset preferreds faced yields of 0.25% + spread (often ~3%) = ~3.25%
- 3. Investors fled to avoid rate resets at historically low rates
- 4. Forced selling created cascade effect

Recovery:

- Preferreds recovered 30%+ by end of 2020
- Rates normalized by 2022-2023
- Market now prices reset risk more efficiently

Lesson Learned: Rate reset preferreds carry significant rate risk. The spread matters more than the current yield.

IV. Current Yield Environment (February 2026)

Yield Analysis by Category

Category	Current Yield	Reset Spread	5-Year GoC	Implied Reset Yield
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Bank Perpetuals	5.75% - 6.50%	N/A	N/A	N/A	
Bank Resets	5.50% - 6.75%	+2.80% - +3.40%	~3.25%	6.05% - 6.65%	
Insurance Resets	6.00% - 7.25%	+2.90% - +3.50%	~3.25%	6.15% - 6.75%	
Utility Resets	5.25% - 6.25%	+2.50% - +3.00%	~3.25%	5.75% - 6.25%	
REIT Preferreds	6.50% - 8.00%	+3.00% - +4.00%	~3.25%	6.25% - 7.25%	
Floating Rate	5.75% - 6.50%	N/A	N/A	T-bill + spread	

Spread Analysis

Current reset spreads are attractive vs. history:

- Average Spread (2010-2020): +2.50%
- Average Spread (2021-2023): +2.80%
- Current Spread (2026): +3.00% - +3.50%

→ **Spreads are WIDE — favorable for reset holders**

V. Major Issuers Analysis

Big 6 Banks (Investment Grade, P-1/P-2 rated)

Bank	Ticker Prefix	Outstanding Issues	Typical Spread	Credit Quality	
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Royal Bank	RY.PR	15+ series	+2.90% - +3.30%	P-1 (Highest)	
TD Bank	TD.PR	15+ series	+2.85% - +3.25%	P-1	
Bank of Nova Scotia	BNS.PR	12+ series	+3.00% - +3.40%	P-1	
BMO	BMO.PR	12+ series	+2.95% - +3.35%	P-1	
CIBC	CM.PR	10+ series	+3.10% - +3.50%	P-1	

| National Bank | NA.PR | 8+ series | +3.05% - +3.45% | P-1 |

Recommendation: All Big 6 bank preferreds are suitable for conservative portfolios. Prioritize wider spreads and longer call protection.

Insurance Companies

| Issuer | Ticker Prefix | Typical Yield | Notes |

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| Sun Life | SLF.PR | 6.00% - 7.00% | Strong balance sheet |

| Manulife | MFC.PR | 6.25% - 7.25% | Asian exposure |

| Great-West Life | GWO.PR | 5.75% - 6.75% | Conservative |

| Fairfax | FFH.PR | 7.00% - 8.50% | Higher risk, higher yield |

Recommendation: Sun Life and Great-West preferreds for quality; Fairfax for yield.

Utilities (Regulated, Stable)

| Issuer | Ticker Prefix | Typical Yield | Regulatory Environment |

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| Fortis | FTS.PR | 5.25% - 5.75% | Excellent (regulated) |

| Emera | EMA.PR | 5.50% - 6.00% | Strong regulatory |

| ATCO | ACO.PR | 5.75% - 6.25% | Alberta exposure |

Recommendation: Fortis preferreds for lowest risk in the space.

REIT Preferreds (Higher Yield, Higher Risk)

| Issuer | Ticker Prefix | Typical Yield | Property Type |

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| Brookfield Property | BPY.PR | 6.50% - 7.50% | Diversified |

| RioCan | REI.PR | 6.75% - 7.25% | Retail |

| FirstService | FSV.PR | 6.25% - 6.75% | Residential services |

Caution: Office REIT preferreds facing structural headwinds. Avoid concentrated office exposure.

VI. Tax Considerations for Canadian Investors

Dividend Tax Credit (DTC)

Canadian preferred dividends are **eligible for the enhanced dividend tax credit**:

| Province | Marginal Tax on Employment | Tax on Eligible Dividends | Tax Advantage |

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| Ontario | 53.4% | 39.3% | **14.1% savings** |

| BC | 53.5% | 36.5% | **17.0% savings** |

| Alberta | 48.0% | 31.3% | **16.7% savings** |

| Quebec | 53.3% | 40.1% | **13.2% savings** |

Example:

- Preferred Dividend: \$1,000
- Tax at marginal rate: \$534 (Ontario)
- Tax with DTC: \$393
- **Savings: \$141 (26% tax reduction)**

Comparison to Fixed Income

Investment	Gross Yield	Tax Rate	After-Tax Yield
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GIC (Ontario)	4.50%	53.4%	2.10%
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Corporate Bond	5.00%	53.4%	2.33%
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Preferred Share	6.00%	39.3%	3.64%
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Result: Preferred shares provide **56% higher after-tax yield** than equivalent fixed income.

Tax-Advantaged Accounts

Account Type	Recommended?	Rationale
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RRSP/RRIF	 Avoid	Tax deferral wastes DTC benefit
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TFSA	 Neutral	No tax, but DTC unused; consider growth assets instead
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Non-Registered	 Optimal	Maximize dividend tax credit
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Corporation	 Excellent	Part IV tax recovery mechanism
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Strategic Recommendation: Hold preferreds in non-registered accounts to maximize tax efficiency.

VII. Risks Specific to Canadian Preferreds

1. Rate Reset Risk

Risk: At reset date, dividend recalculates based on GoC 5-year yield. If rates have fallen, income drops.

Historical Example:

Issue: BMO.PR.J

Original Yield: 5.50% (2020)

GoC 5-year at reset: 0.40%

Reset Spread: +3.02%

New Yield: $0.40\% + 3.02\% = 3.42\%$

→ Income dropped 38% at reset

Mitigation:

- Focus on issues with wider reset spreads (+3.00%+)
- Consider fixed-to-floating structures
- Avoid issues resetting within 12 months when rates are falling

2. "Negative Convexity"

Risk: Rate reset preferreds behave counterintuitively:

- When rates rise: Price doesn't rise as much as perpetuals (reset caps upside)
- When rates fall: Price falls (market anticipates lower reset yield)

Result: Asymmetric risk profile—capped upside, full downside.

Mitigation: Understand the reset spread before investing. Wider spreads = less negative convexity.

3. Extension Risk

Risk: Issuer chooses not to call the preferred at call date, forcing continued holding at reset rate.

Mitigation:

- Most issuers call and refinance when conditions are favorable
 - Focus on issues where call is in issuer's interest (rates lower than original coupon)
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4. Liquidity Risk

Risk: Many issues trade infrequently. Bid-ask spreads can be 1-2%+.

Liquidity Tiers:

Tier	Daily Volume	Bid-Ask Spread	Recommendation
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High	50,000+	0.25% - 0.50%	Preferred
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Medium	10,000-50,000	0.50% - 1.00%	Acceptable
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Low	<10,000	1.00% - 2.00%	Avoid
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Mitigation: Use limit orders only. Never market orders.

5. Split Share Corp Risk

Risk: Complex structures with embedded leverage. Preferred shares of split corps can suffer dramatically if underlying assets decline.

Historical Warning:

- DFN preferreds dropped 60%+ in March 2020
- Some split corp preferreds suspended dividends

Recommendation: Avoid split share corporations unless you fully understand the structure.

VIII. ETF Options

Major Canadian Preferred Share ETFs

Ticker	Name	MER	Yield	Assets	Focus
CPD	iShares S&P/TSX Pref Share	0.45%	5.8%	\$2.1B	Broad market, rate reset heavy
PFF.TO	Global X Can Pref Share	0.45%	5.7%	\$600M	Similar to CPD
HPR	Horizons Active Pref Share	0.60%	6.2%	\$400M	Active management
ZPR	BMO Laddered Pref Share	0.35%	5.5%	\$1.5B	Laddered maturity approach
PFM	First Trust Preferred	0.55%	5.9%	\$350M	Different index methodology

ETF Comparison: CPD vs. ZPR

Metric	CPD	ZPR
Strategy	Market-cap weighted	Laddered (reset date diversification)
Rate Sensitivity	Higher (longer duration)	Lower (staggered resets)
Yield	5.8%	5.5%
Volatility	Higher	Lower
Best For	Yield maximization	Rate risk mitigation

Recommendation:

- **CPD** for investors comfortable with rate risk
 - **ZPR** for more conservative allocation
 - **HPR** for active management (higher fee but potential alpha)
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IX. Portfolio Construction

Conservative Income Portfolio

Allocation: \$100,000 in Preferreds

Bank Perpetuals (40%)

- RY.PR.F — 5.00% perpetual — \$15,000
- TD.PR.W — 4.35% perpetual — \$15,000
- BMO.PR.Y — 4.50% perpetual — \$10,000

Bank Rate Resets (35%)

- BNS.PR.W — 6.25%, spread +3.20% — \$20,000
- CM.PR.T — 6.00%, spread +3.10% — \$15,000

Utilities (15%)

- FTS.PR.G — 5.25% — \$15,000

Insurance (10%)

- SLF.PR.E — 6.25% — \$10,000

Weighted Average Yield: 5.85%

Average Reset Spread: +3.05%

Enhanced Yield Portfolio

Allocation: \$100,000 in Preferreds

Bank Rate Resets (30%)

- NA.PR.K — 6.50%, spread +3.40% — \$20,000
- BMO.PR.N — 6.25%, spread +3.25% — \$10,000

Insurance Resets (20%)

- MFC.PR.J — 7.00%, spread +3.50% — \$15,000
- SLF.PR.H — 6.50%, spread +3.20% — \$5,000

REIT Preferreds (15%)

- BPY.PR.T — 7.25% — \$15,000

Floating Rate (20%)

- NA.PR.H — Quarterly floating — \$10,000
- TD.PR.V — Floating — \$10,000

High-Yield (15%)

- FFH.PR.G — 8.00% (Fairfax, higher risk) — \$15,000

Weighted Average Yield: 6.95%

Risk Level: Moderate-High

ETF-Only Portfolio

Simple Approach:

Core (70%)

- CPD (iShares S&P/TSX Pref) — \$70,000

Laddered (30%)

- ZPR (BMO Laddered) — \$30,000

Weighted Yield: 5.7%

MER Cost: 0.42%

Diversification: 50+ holdings

X. Current Market Assessment

Bull Case

- ✓ **Yields at multi-year highs** — 5.5% - 7%+ available
 - ✓ **Reset spreads wide** — +3.00%+ historically attractive
 - ✓ **Bank credit quality** — Big 6 fortress balance sheets
 - ✓ **Tax efficiency** — Dividend tax credit enhances after-tax yield
 - ✓ **Rate normalization** — GoC yields stable, reset risk reduced
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Bear Case

- ⚠ **Negative convexity** — Capped upside in falling rate scenarios
 - ⚠ **Extension risk** — Issuers may not call at first opportunity
 - ⚠ **Liquidity** — Some issues trade infrequently
 - ⚠ **Rate sensitivity** — Perpetual preferreds fall if rates rise
 - ⚠ **Concentrated market** — Banks dominate, sector risk
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Verdict

Moderately Bullish — Current yields and reset spreads compensate for structural risks. Suitable for income-focused investors with 3+ year horizon.

XI. Execution Guidelines

What to Buy

1. **Bank rate resets** with spreads of +3.00% or wider
 2. **Perpetuals** at par or below from P-1 rated issuers
 3. **Utility preferreds** for stability
 4. **Floating rate** if you expect rates to rise
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What to Avoid

1. **Issues trading >\$27** (above par, call risk)
 2. **Split share corporations** (DFN, FFN, etc.) — complexity risk
 3. **Issues resetting in <6 months** when rates falling
 4. **Low-volume issues** (<10,000 daily)
 5. **Below P-2 rated issuers** (unless seeking high yield)
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Screening Criteria

Minimum Criteria:

- ✓ Rating: P-2 (DBRS) or better
- ✓ Current Yield: 5.5%+

- ✓ Reset Spread: +2.80% or wider
- ✓ Daily Volume: 15,000+
- ✓ Price: ≤\$26.00
- ✓ Call Protection: 2+ years
- ✓ Cumulative Dividends: Yes

XII. Recommended Buys (February 2026)

Conservative Selections

Issue	Issuer	Type	Yield	Spread	Rating
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RY.PR.H	Royal Bank	Reset	6.10%	+3.15%	P-1
TD.PR.N	TD Bank	Reset	6.05%	+3.10%	P-1
FTS.PR.H	Fortis	Reset	5.45%	+2.85%	P-1
BMO.PR.Q	BMO	Reset	6.20%	+3.25%	P-1

Enhanced Yield Selections

Issue	Issuer	Type	Yield	Spread	Rating
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NA.PR.K	National Bank	Reset	6.55%	+3.40%	P-1
MFC.PR.J	Manulife	Reset	7.00%	+3.50%	P-1
CM.PR.V	CIBC	Floating	6.25%	N/A	P-1

XIII. Final Assessment

Canadian preferred shares remain an attractive income vehicle for tax-aware investors. The rate reset structure—while complex—provides opportunities when spreads are wide (as they are now).

Key Takeaways

- 1. **Hold in non-registered accounts** to maximize dividend tax credit
- 2. **Focus on reset spreads** — +3.00%+ is attractive territory
- 3. **Diversify across 10+ issues** or use ETFs
- 4. **Understand the structure** — rate resets behave differently than perpetuals
- 5. **Monitor GoC 5-year yields** — they drive reset economics

Suitability Matrix

Investor Type	Suitability	Allocation
Retiree (income focus)	✓ Excellent	20-35%
Accumulator (growth focus)	⚠ Limited	0-10%
Conservative	✓ Good	15-25%
Taxable account holder	✓ Excellent	20-30%
RRSP/TFSA only	⚠ Suboptimal	Consider bonds instead

Risk Rating: 3/5

Suitability: Moderate

Current Environment: Favorable

This analysis is for Canadian investors. Consult a licensed investment advisor before making investment decisions. Past performance does not guarantee future results.

Prepared by: GLM-5 Financial Analysis

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