

CI PREFERRED SHARE FUND

Q3-2024 Commentary



FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR	S.I.
CI Preferred Share Fund, Series F*	26.6%	2.9%	7.6%	N/A	6.2%
Benchmark: S&P/TSX Preferred Share Total Return Index	29.3%	2.0%	6.6%	2.8%	5.7%

* Inception date: December 21, 2015. Formerly Signature Preferred Share Fund, renamed effective July 29, 2021.

Source: CI Global Asset Management, as at September 30, 2024.

PERFORMANCE SUMMARY

- Over the third quarter of 2024, CI Preferred Share Fund, Series F (the Fund) returned 6.0% compared with its benchmark, the S&P/TSX Preferred Share Total Return Index, which returned 5.5%.
- The Fund outperformed the benchmark as a result of security selection in and exposure to rate-reset preferred shares.
- The preferred share market continued to move higher as redemption announcements during the quarter continued, with \$580 million, or 1.2% of the market. Investor demand was good as investors looked to lock in higher coupon rates as interest rates fell significantly.

CONTRIBUTORS TO PERFORMANCE

A holding in rate-reset preferred shares (6.7037%) issued by Enbridge Inc. contributed to the Fund's performance. The company continued to perform well as the demand for energy and pipeline capacity remained strong. This U.S.-dollar holding is a large weighting within the Fund and had a good quarter.

Holdings in Brookfield Office Properties Inc. Series P, EE and CC preferred shares also contributed to the Fund's performance. The holdings performed well as investors become less concerned that the company will miss a dividend payment. The current yield on these preferred shares ranges from 7.8% to 10.8%, which is still very attractive.

DETRACTORS FROM PERFORMANCE

A holding in rate-reset preferred shares (3.66% Series 1) issued by The Toronto-Dominion Bank detracted from the Fund's performance. The bank has been under investigation for anti-money laundering (AML) changes in the United States and will pay a fine of approximately US\$3 billion plus have an asset cap on its U.S. retail banking operations until the regulator is satisfied with policies and procedures put in place to prevent AML in the future. The preferred shares were up for redemption or reset at the end of October 2024. The market was pricing an expected redemption, but just before the end of September, the bank announced it was resetting the shares at 4.97%, so the price fell \$1.75.

The Fund's position in AltaGas Ltd. 4.75% Series G preferred shares also detracted from performance. The company has been doing well operationally and is still growing its businesses. These preferred shares, with a mid-back-end reset spread, were trading in the market as if it was going to be redeemed as the company could have issued a corporate hybrid bond at a lower after-tax cost. However, the company decided not to redeem, and the price fell \$1.75.

PORTFOLIO ACTIVITY

A holding in Royal Bank of Canada 4.9% Series BH preferred shares was added to the Fund as more bank preferred shares were redeemed during the period. These preferred share will likely be redeemed in the next 18–24 months.

A number of bank-issued preferred shares that were announced for redemption were sold to fund the purchases of other preferred shares.

MARKET OVERVIEW

Economic conditions in Canada remain weak. The Canadian economy faces challenges from rising unemployment, consumers stressed by higher interest rates and likely lower demand as immigration moderates. The Bank of Canada (BoC) began cutting interest rates in June and completed three cuts through September, lowering its overnight lending rate from 5.00% to 4.25%. The market expects the BoC to further cut the overnight lending rate at each of its next two meetings into year-end. The BoC has indicated that it is reasonable to expect more cuts if economic data progresses as expected.

The U.S. Federal Reserve Board (Fed) started its interest rate cutting cycle in September with a relatively large 50-basis-point cut to its overnight lending rate. The market expects more cuts before year-end. Given rising unemployment in both Canada and the United States, the BoC and the Fed are increasingly sensitive to downside risks now that there is a line of sight on inflation returning to target.

The Canadian preferred share market has enjoyed a strong 12 months, with the benchmark index up 29.3%. We remain positive on the market but are less enthusiastic than in the past year. The current yield of 5.8% remains attractive, and we expect that rate-reset preferred shares may increase the current yield over the next couple of years, but not as much as originally projected. Redemptions are expected to continue at a good pace but not as strongly as in 2024. We expect 6% to 8.5% of the market to be redeemed. Banks are the largest redeeming sector as they reduce dividend-paying \$25 par preferred shares and fund them with less-costly, interest-bearing limited recourse capital notes. Our estimated return over the next 12 months is a healthy 6–8%.

Source: CI Global Asset Management

For more information, please visit [ci.com](https://www.ci.com).

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