

SPLIT SHARE PRIMER



What are Split shares?

Split share funds ("Splits") are unique investment corporations that provide opportunities for both conservative and more aggressive investors. They typically invest in an pool of dividend paying companies and divvy up or "split" the dividends paid by underlying stocks from the potential capital appreciation from that same pool of securities. Splits reallocate, these two benefits (dividends and capital appreciation) between the two separate exchange vehicles: a Preferred Share and a Class A share.

How Do Splits Work?

The Preferred Share:

Preferred shares are generally more appropriate for conservative investors seeking stability and a regular source of tax-efficient income. Preferred shares receive fixed, cumulative, quarterly distributions and have a priority claim on the fund's assets ahead of Class A shares. Preferred shares have a favourable fee structure as most of the corporation's expenses are borne by Class A shares. The preferred shares, however, do not benefit from the growth in the underlying portfolio of stocks.

The Class A Share:

Class A shares are typically designed for less risk averse investors seeking enhanced capital gains. All of the capital appreciation in the underlying portfolio of stocks accrues to Class A shares. This provides embedded leverage and does not have additional costs associated with utilizing traditional leverage by borrowing at prevailing interest rates. Class A shares also receive a targeted monthly distribution generated from capital gains and excess dividend income after preferred share distributions have been paid.



The dividends and capital appreciation earned in the pool of dividend paying stock are split between the two distinct share classes.

Scenario Analysis

| Portfolio of Dividend Stocks Original Value = \$25 Per Share | Preferred Shareholders Original Value = \$10 Per Share | Class A Shareholders Original Value = \$15 Per Share |
|---|--|--|
| <ul style="list-style-type: none"> The portfolio of dividend paying stocks generate \$1.25 per share in dividends AND No capital appreciation over 1-Year | <ul style="list-style-type: none"> Shareholders receive \$0.50 annually per share distribution (paid quarterly) NAV per share stays at \$10 Total 1-Year Return of 5.0% | <ul style="list-style-type: none"> Shareholders receive \$1.50 annually per share distribution (paid monthly) NAV per share decreases to \$14.25 due to the distribution Total 1-Year return of 5.0% (\$1.50 distribution - \$0.75 change in NAV due to distribution shortfall) |
| <ul style="list-style-type: none"> The portfolio of dividend paying stocks generate \$1.25 per share in dividends AND Appreciate 10% over 1-Year | <ul style="list-style-type: none"> Shareholders receive \$0.50 annually per share distribution (paid quarterly) NAV per share stays at \$10 Total 1-Year Return of 5.0% | <ul style="list-style-type: none"> Shareholders receive \$1.50 annually per share distribution (paid monthly) Class A shares receive the entire 10% appreciation of the portfolio of dividend paying stocks and the portion of dividend revenue that remains after preferred shareholders are paid their \$0.50 per share (\$0.75 per share remains) NAV per share increases to \$16.75 Total 1-Year return of 21.7% (\$1.50 distribution - \$0.75 change in NAV due to distribution shortfall + \$2.50 change in NAV due to market appreciation) |
| <ul style="list-style-type: none"> The portfolio of dividend paying stocks generate \$2.00 per share in dividends AND | <ul style="list-style-type: none"> Shareholders receive \$0.50 annually per share distribution (paid quarterly) | <ul style="list-style-type: none"> Shareholders receive \$1.50 annually per share distribution (paid monthly) |

- Appreciate 15% over 1-Year
- NAV per share stays at \$10
1-Year Return of 5.0%
- Class A shares are allocated the entire 15% appreciation of the portfolio of dividend paying stocks and the portion of dividend revenue that remains after preferred shareholders are paid their \$0.50 per share (\$1.50 per share remains)
- NAV per share increases to \$18.75
- **Total 1-Year return of 35.0%** (\$1.50 distribution + \$3.75 change in NAV due to market appreciation)

Scenarios are presented gross of fees and fund expenses.

Who should buy Preferred Shares?

Preferred Shares are typically well-suited for long-term investors seeking a stable stream of dividend income generated by high-quality, large-cap companies. These shares are more conservative and have a steady distribution due to their fixed, cumulative quarterly payments.

Who should buy Class A Shares?



Class A Shares are typically well-suited for less risk-averse investors that are more comfortable with using leverage and are comfortable with higher levels of volatility. Class A shares offer a low-cost strategy for enhancing returns in a specific area of investment such as energy infrastructure or real estate.



What Splits Does Middlefield Manage?

Middlefield manages actively managed Split Share strategies currently focused on the energy and real estate sectors. Buying a Class A or Preferred share of a Middlefield Split Share is an efficient way to invest in a sector or group of stocks using a unique investment vehicle run by a private and independent asset manager. Middlefield manages over half-a-billion dollars in split share assets which trade on the TSX and can be purchased in the same manner as any other stock trading on the exchange.



| Fund | TSX Ticker Preferred Share | TSX Ticker Class A Share | Investment Focus |
|---|----------------------------|--------------------------|-------------------|
|  MIDDLEFIELD E SPLIT | ENS.PR.A | ENS | Energy (Enbridge) |
|  MIDDLEFIELD REAL ESTATE SPLIT | RS.PR.A | RS | Real Estate |

Learn more about Split Shares at Middlefield.com

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Published: July 2022