Preferred Shares and Portfolio Diversification

At IAIC, we believe that it is important to provide insight into the strategies and market knowledge that we employ when tailoring a portfolio mix. In an otherwise low interest –rate environment, we continue to monitor combinations between all types of investments. We maintain that a diversified portfolio, which includes certain types of preferred shares, is an excellent, high-quality investment strategy, despite the current market volatility.

At the core of IAIC's investment strategy is the adherence to proper portfolio diversification among asset classes to safeguard investors. IAIC maintains that the inclusion of certain types of preferred shares, where appropriate, remain an important part of our income-producing strategy. The current volatility within this asset class is due to: the surprise announcement by the Bank of Canada to ***lower*** interest rates in January and the sharp decline in Government of Canada bond yields throughout the first quarter of 2015.

Within this strategy, we diversify across different five types of preferred shares, each of which offers differing mechanics with respect to dividends and redemption details. The dividends of two types that we buy are tied directly to prevailing interest rates. It would stand to reason, that these are the shares that are currently out of favour in investors' minds given the unexpected declines of the respective rates.

Regardless of the type, all names continue to remain high-quality, investment-grade issues, with a solid ability to meet their dividend payments. They remain good investments yet some are simply oversold given the surprise decrease in short-term interest rates. Even at depressed levels, dividend yields [which are very tax efficient] still outweigh what could be achieved if one were to be invested in the corresponding bond market.

Given the current volatility within the income-producing sector, the downward move in interest rates has caused investors to seek other types of income-producing assets such as bonds, REIT's, and other types of preferred shares. Further, only those assets with dividend streams tied directly to interest rates have been adversely affected, which directly impacts the two types of preferred shares mention earlier. In the current low interest-rate environment, investors "crave for yield" continue to boost share prices in such areas as financials and utilities (Which historically pay higher dividends). The opposite is the increased demand for investor safety: which inflates the prices of Government bonds bringing their yields to historic lows. In between these two extremes, some preferred shares have not only been volatile, but are now trading at distressed levels offering attractive yields for the long term.

At IAIC, three important trends we will be monitoring very closely include:

1. Making shifts among the various types of preferred shares to reflect the current market environment and to guard against unexpected moves in interest rates,
2. Watching the holdings very closely going forward given the current volatility, and lastly,
3. Where appropriate, triggering capital losses to offset gains made in other years, or other segments of the investment portfolio. Proceeds could then be re-invested into similar types of preferred shares in order to maintain appropriate exposure.

In the long term, dividends of preferred shares that are tied to interest rates remain an optimal, tax-efficient way to protect a portfolio from inflation while providing a higher level of income than traditional bonds.