



*Insight beyond the rating.*

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## **DBRS Downgrades Mulvihill Pro-AMS RSP Split Share Corp. Class A Shares to Pfd-5**

### **Industry: Split Shares & Funds**

DBRS has today downgraded the Class A Shares issued by Mulvihill Pro-AMS RSP Split Share Corp. (the Company) to Pfd-5 from Pfd-4; the trend is Negative.

In March 2002, the Company issued six million Class A Shares at \$10 per share and six million Class B Shares at \$20 per share, both with a redemption date of December 31, 2013 (the Termination Date). The Company invested approximately 34.5% of the gross proceeds in a portfolio of Canadian equity securities to enter into a forward agreement with Royal Bank of Canada (the Counterparty) to provide for the full capital repayment of the Class B Shares on the Termination Date.

The rest of the net proceeds from the initial offering were invested in a diversified portfolio of Canadian and U.S. equities (the Managed Portfolio). After offering expenses, the Managed Portfolio provided asset coverage of approximately 1.8 times to the Class A Shares (downside protection of about 44%). In addition to providing principal protection for the Class A Shares, the Managed Portfolio is used to make distributions to the Class A Shares equal to 6.5% per annum and pay annual fees and expenses. Also, the Company has been making semi-annual contributions of \$0.43 per Class A Share from the Managed Portfolio to an account (the Class A Forward Account), which was used to enter a forward agreement with the Counterparty for the repayment of the Class A Shares principal on the Termination Date.

The Managed Portfolio has a current value of \$2.65 per share (as of May 8, 2008), a decrease of nearly 85% since inception. About one-third of the decline has resulted from the semi-annual contributions to the Class A Forward Account. The present value of the Class A Forward Account is \$6.53, and the future value is \$8.08, meaning 80.8% of the Class A Shares principal is now guaranteed by the Counterparty on the Termination Date. In order for the Company to return the \$10 principal to each Class A Shareholder on the Termination Date, the Company would still need to contribute approximately \$1.54 (present value) to the Class A Forward Account today in order to secure the remaining \$1.92 (future value) of required principal protection. Consequently, the Company will find it challenging to meet its annual expenses and monthly dividend payments to the Class A Shareholders.

The main strength of the rating is the amount of Class A Shares principal guaranteed by the Counterparty on the Termination Date (80.8% of the principal amount).



The main constraints to the rating are the following:

(1) The sum of the Managed Portfolio's NAV and the present value of the Class A Forward Account is \$9.18 per share (as of May 8, 2008), which is not enough to cover the Class A Shares principal of \$10 per share.

(2) The Company's annual expenses, dividend commitments and Class A Forward Account contributions cause a grind on the Managed Portfolio's NAV over time.

(3) It will be a challenge for the manager to effectively budget the Managed Portfolio's NAV to return full principal and make distributions to the Class A Shares.

Note:

All figures are in Canadian dollars unless otherwise noted.

Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Mulvihill Pro-AMS RSP Split Share Corp.	Class A Shares	Downgraded	Pfd-5	Neg	May 13, 2008

The full report providing additional analytical detail is available by clicking on the link below or by contacting us at [info@dbrs.com](mailto:info@dbrs.com).

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