



Slater Monthly Recap

October 2020

The Canadian Preferred Share market weakened along with common equity markets in the last week of October. After having been up by as much as 1.0%, the S&P/TSX Preferred Share Index ended the month down 38 bps, and Series F of Lysander-Slater Preferred Share Dividend Fund (the “Fund”) ended the month down 65 bps and the Lysander-Slater Preferred Share *Activ*ETF (the “ETF”) down 58bps.

Cenovus Energy agreed to acquire Husky Energy in a deal that would create Canada’s fourth largest oil company. Husky common and preferred shares rallied on the news, giving a boost to the Fund and ETF’s 1.0% weighting in Husky Preferred Shares. If the deal is approved, existing Husky Preferred Shares will be converted into Cenovus Preferred Shares with the same terms as they have now.

RBC brought a \$1.25 billion 4% limited recourse capital note (“LRCN”) to market, which was 2x oversubscribed. The 4% coupon rate was 50 bps lower than RBC’s first deal, launched in July. Canadian Western Bank issued a \$175 million 6% LRCN, marking it the sixth LRCN issued by a Canadian bank.

BMO called in a \$150 million straight perpetual Preferred Share (BMO.PR.Z) at \$26.00 following an LRCN issue in September. We expect to see more bank Preferred Shares being redeemed as high-reset-spread fixed resets become eligible for redemption in 2021. The redemption of fixed reset Preferred Shares following new LRCN issues could continue to have a positive impact on credit spreads as the supply of outstanding Preferred Shares falls.

Portfolio updates

Throughout the month of October, we reduced our exposure to straight perpetual Preferred Shares in the Fund and ETF that we consider both fully valued and vulnerable to a sell-off should inflation begin to pick up in 2021. We added to fixed resets with a reset spread of 225-300 bps, and to certain issues with a reset spread under 225 bps. These resets have underperformed this year due to the drop in bond yields, but we believe they should benefit from tightening credit spreads as Preferred Share supply is reduced, and from higher interest rates if inflation rises in the coming quarters.

Standard Performance (as of October 31, 2020)

	1 YR (%)	3YR (%)	5YR (%)	Since Inception (%)
The Fund Series F	-5.6	-6.3	0.0	-1.7 (Dec. 30, 2014)
ETF	-5.1	-6.1	0.3	-0.4 (Aug. 10, 2015)

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Lysander is the investment fund manager of Lysander-Slater Preferred Share Dividend Fund and Lysander-Slater Preferred Share ActivETF (collectively, the “Funds”).

Slater is the portfolio manager of the Funds.

In this document, “we”, “us”, and “our” means Slater.

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