



JUNE 2021

Slater Monthly Recap

The Canadian Preferred Share market's "hot streak" ended in June after a tremendous start to 2021. The S&P/TSX Preferred Share Total Return Index (the "Index") was virtually flat, losing 0.22% in the month. Series F of Lysander-Slater Preferred Share Dividend Fund, (the "Fund") and Lysander-Slater Preferred Share *ActivETF* (the "ETF") outperformed the Index, with total returns of 0.10% and 0.12%, respectively, for the month.

There was an abundance of activity in the Limited Recourse Capital Notes ("LRCN") market in June, with three deals launched totaling \$3.25 billion. Royal Bank launched its third LRCN with a \$1.0 billion 3.65% issue, which was 2.5x oversubscribed¹. The Bank of Nova Scotia followed shortly thereafter with its first LRCN, a \$1.25 billion 3.70% issue, which was 2.3x oversubscribed². Sun Life Financial came with an issue at the end of the month, which was \$1.0 billion in size bearing a 3.6% coupon. The Sun Life deal was 4x oversubscribed³! Needless to say, the demand for these notes by institutional investors remains extremely strong. The LRCN market has now grown to over \$12 billion.

On the heels of its LRCN deal, we expect that Sun Life Financial will call in its \$300 million SLF.PR.I, which has a 273 bps reset spread and comes up for reset in December. That

would bring total year-to-date redemptions up to \$4.62 billion⁴. We expect to see a total of approximately \$9 billion par value of Preferred Shares called in by year end.

The 5-year Canada bond yield (the benchmark rate for resetting coupons on fixed-rate resets), finished the month of June at 1.0%, compared to 0.91% at the end of May. We believe the increase was due, in part, to rising oil prices, and the announcement by the U.S Federal Reserve that it expects to begin raising interest rates in 2023, ahead of schedule.

Over the past several quarters, we have been positioning the Fund and the ETF to benefit from an eventual increase in rates. As such, we see opportunities in discounted fixed-rate reset and floating-rate Preferred Shares. In addition, we continue to look at attractive straight perpetual issues that have underperformed the market year-to-date, but offer compelling yields in the 4.5%-5.5% range.

Our outlook is, compared to the first half of 2021, performance should flatten and then trend higher by year end as further redemptions become realized. The two factors that should help support Preferred Share performance going forward are: 1) a further \$4 billion in redemptions, and 2) higher interest rates. As an active manager, we continually seek out the best opportunities in the Preferred Share market. With multiple positive catalysts on the horizon, we are optimistic about the Fund's and the ETF's performance for the remainder of the year.

1, 2, 3, 4 Bloomberg Finance L.P.

STANDARD PERFORMANCE (AS OF JUNE 30, 2021)

	1 YR (%)	3YR (%)	5YR (%)	Since Inception (%)
The Fund Series F	47.98%	3.23%	6.51%	3.23% (Dec. 30, 2014)
The ETF	48.15%	3.50%	6.71%	4.99% (Aug. 10, 2015)

Performance information for periods greater than 1 year is annualized.

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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.

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