



JULY 2021

Slater Monthly Recap

The Canadian Preferred Share market had a good start to the second half of the year with the S&P/TSX Preferred Share Total Return Index (the “Index”) up 0.80% in the month of July. Series F of Lysander-Slater Preferred Share Dividend Fund (the “Fund”) and Lysander-Slater Preferred Share *ActivETF* (the “ETF”) outperformed the Index for the 9th consecutive month with total returns of 0.89% and 0.85%, respectively.

The Limited Recourse Capital Notes (“LRCN”) market was active in July, with TD Bank launching its first Note. The \$1.75 billion 3.60% issue was upsized from \$1.5 billion initially and takes the total LRCN market capitalization up to approximately \$14 billion¹. We believe TD’s new LRCN will replace its \$700 million 5.5% fixed reset TD.PF.G, which was called in April, and its \$1 billion 4.85% fixed reset TD.PF.H, which comes up for redemption in October².

Redemptions during the month of July included a \$200 million Brookfield Renewable 5.75% fixed reset (BEP.PR.I), which came as a surprise to the marketplace³. In addition, the Bank of Montreal called in its 1.8% fixed reset BMO.PR.Q and floating-rate BMO.PR.A, two non-NVCC Preferred Shares, for a total of \$430 million⁴. Year-to-date, over \$7 billion

in Preferred Shares has been called, with an additional estimated \$2 billion to be called by year end⁵.

The 5-year Canada bond yield (the benchmark rate for resetting coupons on fixed resets), finished the month of July at 0.80%, compared to 1.0% at the end of June. We believe the drop in the 5-year rate was largely due to fears that the Delta variant, which has been spreading across Asia, Europe, and the U.S., would hinder economic recovery. We view the drop in rates as temporary, and believe that higher vaccination rates will help keep the virus and variants under control, allowing for further economic growth.

Over the past several quarters, we have been positioning the Fund and ETF to benefit from an eventual increase in interest rates. In particular, we see opportunities in discounted fixed reset and floating-rate Preferred Shares. Recently, we've added slightly to our position in fixed resets with spreads under 225 bps, taking the total weighting of these in each of the Fund's and the ETF's portfolio to approximately 13%. We also 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.

The two factors that should help support Preferred Share performance going forward are: 1) a further estimated \$9 billion in redemptions by the end of 2022, 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, 5 Bloomberg Finance L.P.

Standard Performance (As of JULY 31, 2021)

	1 YR (%)	3YR (%)	5YR (%)	Since Inception (%)
The Fund Series F	41.74%	3.17%	6.03%	3.33% (Dec. 30, 2014)
The ETF	41.92%	3.42%	6.22%	5.06% (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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