

Semi-Annual Management Report of Fund Performance
As at June 30, 2021

Lysander-Slater Preferred Share Dividend Fund



SLATER
ASSET MANAGEMENT



Lysander-Slater Preferred Share Dividend Fund

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A Note About Forward Looking Statements

This semi-annual Management Report of Fund Performance includes certain statements that are “forward looking statements”. All statements, other than statements of historical fact, included in this Management Report of Fund Performance that address activities, events or developments that the Fund expects or anticipates will or may occur in the future, including such things as anticipated financial performance, are forward looking statements. The words “may”, “could”, “would”, “should”, “believe”, “plan”, “anticipate”, “expect”, “intend”, “forecast”, “objective” and similar expressions are intended to identify forward looking statements.

These forward looking statements are subject to various risks and uncertainties, including the risks described in the simplified prospectus of the Fund, which could cause actual financial performance and expectations to differ materially from the anticipated performance or other expectations expressed.

Readers are cautioned not to place undue reliance on these forward looking statements. All opinions contained in forward looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

The Fund has no specific intention of updating any forward looking statements whether as a result of new information, future events or otherwise, except as required by securities legislation. Certain research and information about specific holdings in the Fund, including any opinion, is based upon various sources believed to be reliable, but it cannot be guaranteed to be current, accurate or complete. It is for information only, and is subject to change without notice.

About This Report

This semi-annual Management Report of Fund Performance (“MRFP”) of Lysander-Slater Preferred Share Dividend Fund (the “Fund”) contains financial highlights for the period ended June 30, 2021 but does not contain the complete financial statements of the Fund. This report should be read in conjunction with the semi-annual financial statements of the Fund for the period ended June 30, 2021. Lysander Funds Limited (the “Manager”) is the manager of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling toll-free 1 877 308 6979, by writing to Lysander Funds Limited, 3080 Yonge Street, Suite 3037, Toronto, Ontario, M4N 3N1, by visiting our website at www.lysanderfunds.com or at SEDAR at www.sedar.com.

Unitholders may also contact Lysander Funds Limited using one of these methods to obtain a copy of the Fund’s proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Investment objective

The Fund’s objective is to seek to generate income while preserving investor capital by investing primarily in preferred securities of Canadian issuers that are listed on a Canadian stock exchange.

Investment Strategies

The Fund’s portfolio manager is Slater Asset Management Inc. (“Portfolio Manager” or “Slater”). The Fund’s portfolio positions are primarily invested in preferred shares of Canadian issuers listed in Canada, using fundamental and credit research. The Fund will not be leveraged. The Fund may invest up to 30% of its

assets in foreign securities. More details are contained in the Fund’s simplified prospectus.

Risks

The risks of this Fund remain as discussed in the Fund’s most recent simplified prospectus or its amendments.

Results of Operations

Preferred Shares had a tremendous 1st half to 2021, with the S&P/TSX Preferred Share Index up 14.30% and the Lysander-Slater Preferred Share Dividend Fund (Series F) up 22.49%.

The recovery from Covid-19 helped spur economic activity in North America as vaccinations began to ramp up throughout the first half, and as a result the Canadian 5-year bond yield (Benchmark for fixed rate resets) jumped to 1% by the end of June from 0.45% to begin the year. Another key factor that contributed to strong Preferred Share performance was the continuation by Canadian institutions issuing Limited Recourse Capital Notes (“LRCN”) or “Hybrid notes” and in turn calling in more expensive Preferred Shares. Indeed, over \$12BN in LRCN issuance has come to market since the RBC introductory note in June 2020, with all major banks issuing at least one LRCN. Insurance companies Sun Life and Manulife Financial also issued notes with high demand for their product, with coupon rates of 3.6% and 3.375% respectively. To put it in perspective, both issuers have straight perpetual Preferred Shares outstanding that have a coupon rate of 4.5% (dividend income) that makes the appeal for LRCNs strong as LRCNs are interest income deductible for the issuer. With the strong trend for issuers to issue LRCN over Preferred Shares due to the cost advantage, they have called in approximately \$4.9 billion in Preferred Share

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product year to date with a further estimated \$4 billion to be called by year end. This in turn, has caused investors to seek other Preferred Share product in the secondary market that has led to a squeeze on existing Preferred Shares. Only two new issue Preferred Shares have come to market this year with Genworth MI Canada issuing a \$100MM 5.4% straight perpetual, and Emera issuing a \$200MM 4.25% Floor fixed rate reset Preferred Share.

The Fund was well positioned to begin the period for a move higher in interest rates with approximate weighting of 20.5% in 300-400bp spread fixed reset, 38% in 225-300bp spread resets, and 9% weighting in <225bp fixed rate resets. The positioning was beneficial as these sectors were amongst the highest performing sectors through the first half along with floating rate Preferred Shares. By the end of June, the Fund repositioned by reducing 300-400bp spread resets to 12.5%, increased 225-300bp spread resets to 43%, and slightly increased <225bp resets to 11%.

The Fund's assets under management increased from approximately \$65.4 million at the beginning of the year to approximately \$87.5 million at the end of June.

There were no unusual changes to the components of revenue and expenses of the Fund and there were no unusual events or transactions, economic changes or market conditions that affected performance beyond what would be reasonably expected or have been described below.

The Fund did not borrow money during the period except for immaterial short term cash overdrafts.

Recent Developments

The thesis remains the same for the second half of the year with the recovery play in Canada beginning to play out, we expect higher rather than lower interest rates going forward. We anticipate a further 4 billion of Preferred Share redemptions in 2021, as we believe many of the 2016 issued Preferred Shares will continue to be redeemed this year since they were issued with high fixed spreads that are simply too costly to keep outstanding. In addition, we expect a further estimated \$7 billion in Preferred Share product to be redeemed in 2022 and for little new issuance Preferred Shares to occur leaving the secondary market to continue to be bid up. Due to these expectations, coupled with anticipated higher interest rates in the future, we believe we continue to be well positioned for further capital gain and solid income distribution going forward.

There have been no changes to the Manager or Portfolio Manager, or change of control of the Manager, or of the Fund. There have been no actual or planned reorganizations, mergers

or similar transactions. There were no changes to the membership of the Fund's Independent Review Committee ("IRC").

Related Party Transactions

The Manager provides or arranges for the provision of all general management and administrative services required by the Fund in its day-to-day operations, including but not limited to, calculating and reporting the net asset value of the Fund and its series, preparing all offering documents, unitholder recordkeeping and other administrative services. The Manager receives a management fee for these services. The fee is calculated based on a percentage of the net asset value of the Fund as disclosed in the simplified prospectus.

The Fund paid \$383,976 (including HST) in management fees to the Manager for the period ended June 30, 2021. (June 30, 2020 - \$329,983).

The Portfolio Manager is responsible for all investment advice provided to the Fund including providing investment analysis and recommendations, making investment decisions and arranging for the acquisition and disposition of portfolio investments. Fees for providing these services are included in the management fee.

The Manager paid \$164,139 (including HST) to the Portfolio Manager for the period ended June 30, 2021 (June 30, 2020: \$135,952).

The Manager relied, or may rely on standing instructions from the IRC in respect of securities traded amongst mutual funds, closed end funds, managed accounts or pooled funds managed by the Manager or an affiliate of the Manager. In such cases the Manager is required to comply with the Manager's written policies and procedures presented to the IRC and provide periodic reports to the IRC in accordance with National Instrument 81-107.

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Financial Highlights

Series A

| Period ended | 30-Jun-2021 | 31-Dec-2020 | 31-Dec-2019 | 31-Dec-2018 | 31-Dec-2017 | 31-Dec-16 |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| Net assets per unit¹ | | | | | | |
| Net assets, beginning of period | \$ 7.84 | \$ 8.33 | \$ 8.53 | \$ 10.00 | \$ 9.32 | \$ 8.95 |
| Operations: | | | | | | |
| Total revenue | 0.21 | 0.41 | 0.47 | 0.45 | 0.47 | 0.47 |
| Total expenses | (0.06) | (0.11) | (0.13) | (0.15) | (0.16) | (0.13) |
| Realized gains (losses) | 0.61 | (1.29) | (1.09) | 0.11 | 0.54 | (0.37) |
| Unrealized gains (losses) | 0.97 | 0.64 | 0.85 | (1.56) | 0.19 | 0.82 |
| Total increase (decrease) from operations² | \$ 1.73 | \$ (0.35) | \$ 0.10 | \$ (1.15) | \$ 1.04 | \$ 0.79 |
| Distributions: | | | | | | |
| From income (excluding dividends) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| From dividends | (0.19) | (0.34) | (0.32) | (0.27) | (0.29) | (0.30) |
| From capital gains | - | - | - | (0.12) | (0.10) | - |
| Total distributions^{2 3} | \$ (0.19) | \$ (0.34) | \$ (0.32) | \$ (0.39) | \$ (0.39) | \$ (0.30) |
| Net assets, end of period^{2 3} | \$ 9.37 | \$ 7.84 | \$ 8.33 | \$ 8.53 | \$ 10.00 | \$ 9.32 |

| Ratios and supplemental data | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| Net asset value ⁴ | \$ 20,965,273 | \$ 17,676,754 | \$ 25,827,659 | \$ 25,951,516 | \$ 25,459,510 | \$ 17,007,583 |
| Units outstanding | 2,237,291 | 2,254,836 | 3,101,718 | 3,041,701 | 2,545,622 | 1,824,172 |
| Management expense ratio ⁵ | % 1.53 | % 1.56 | % 1.54 | % 1.53 | % 1.55 | % 1.56 |
| Management expense ratio before waivers or absorption | 1.53 | 1.56 | 1.54 | 1.53 | 1.55 | 1.56 |
| Portfolio turnover rate ⁶ | 67.2 | 157.7 | 84.8 | 104.8 | 132.0 | 175.5 |
| Trading expense ratio ⁷ | 0.3 | 0.6 | 0.4 | 0.4 | 0.5 | 0.6 |
| Net asset value per unit, end of period | \$ 9.37 | \$ 7.84 | \$ 8.33 | \$ 8.53 | \$ 10.00 | \$ 9.32 |

Notes

- The information is derived from the Fund's unaudited semi-annual and/or audited annual financial statements. All per unit figures presented are referenced to net assets determined in accordance to IFRS.
- Net assets and distributions are based on the actual numbers of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.
- Distributions were paid in cash or reinvested in additional units, or both.
- This information is provided at the end of the period shown.
- The management expense ratio is based on the total expenses of the period ended and is expressed as an annualized percentage of daily average net asset values during the period.
- The Fund's portfolio turnover rate indicates how actively the Fund's portfolio manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund. The portfolio turnover rate is calculated based on the lesser of purchases or sales of securities divided by the weighted average market value of portfolio securities, excluding short term securities.
- The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

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Series F

| Period ended | 30-Jun-2021 | 31-Dec-2020 | 31-Dec-2019 | 31-Dec-2018 | 31-Dec-2017 | 31-Dec-16 |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| Net assets per unit¹ | | | | | | |
| Net assets, beginning of period | \$ 7.92 | \$ 8.38 | \$ 8.58 | \$ 10.04 | \$ 9.35 | \$ 8.97 |
| Operations: | | | | | | |
| Total revenue | 0.21 | 0.43 | 0.47 | 0.45 | 0.47 | 0.47 |
| Total expenses | (0.04) | (0.07) | (0.08) | (0.10) | (0.10) | (0.09) |
| Realized gains (losses) | 0.62 | (1.24) | (1.08) | 0.11 | 0.54 | (0.38) |
| Unrealized gains (losses) | 0.95 | 0.71 | 0.76 | (1.64) | 0.19 | 0.87 |
| Total increase (decrease) from operations² | \$ 1.74 | \$ (0.17) | \$ 0.07 | \$ (1.18) | \$ 1.10 | \$ 0.87 |
| Distributions: | | | | | | |
| From income (excluding dividends) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| From dividends | (0.21) | (0.36) | (0.36) | (0.33) | (0.34) | (0.33) |
| From capital gains | - | - | - | (0.10) | (0.10) | - |
| Total distributions^{2 3} | \$ (0.21) | \$ (0.36) | \$ (0.36) | \$ (0.43) | \$ (0.44) | \$ (0.33) |
| Net assets, end of period^{2 3} | \$ 9.48 | \$ 7.92 | \$ 8.38 | \$ 8.58 | \$ 10.04 | \$ 9.35 |
| Ratios and supplemental data | | | | | | |
| Net asset value ⁴ | \$ 66,565,242 | \$ 47,850,514 | \$ 53,479,670 | \$ 74,783,460 | \$ 62,559,365 | \$ 41,523,722 |
| Units outstanding | 7,022,776 | 6,043,971 | 6,379,154 | 8,717,097 | 6,232,411 | 4,440,131 |
| Management expense ratio ⁵ | % 0.97 | % 0.99 | % 0.98 | % 0.97 | % 0.98 | % 1.00 |
| Management expense ratio before waivers or absorption | 0.97 | 0.99 | 0.98 | 0.97 | 0.98 | 1.00 |
| Portfolio turnover rate ⁶ | 67.2 | 157.7 | 84.8 | 104.8 | 132.0 | 175.5 |
| Trading expense ratio ⁷ | 0.3 | 0.6 | 0.4 | 0.4 | 0.5 | 0.6 |
| Net asset value per unit, end of period | \$ 9.48 | \$ 7.92 | \$ 8.38 | \$ 8.58 | \$ 10.04 | \$ 9.35 |

Notes

- The information is derived from the Fund's unaudited semi-annual and/or audited annual financial statements. All per unit figures presented are referenced to net assets determined in accordance to IFRS.
- Net assets and distributions are based on the actual numbers of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.
- Distributions were paid in cash or reinvested in additional units, or both.
- This information is provided at the end of the period shown.
- The management expense ratio is based on the total expenses of the period ended and is expressed as an annualized percentage of daily average net asset values during the period.
- The Fund's portfolio turnover rate indicates how actively the Fund's portfolio manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund. The portfolio turnover rate is calculated based on the lesser of purchases or sales of securities divided by the weighted average market value of portfolio securities, excluding short term securities.
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Management Fees

The Manager provides or arranges the provision of all general management and administrative services required by the Fund, and as described in the section “Related Party Transactions” above.

In consideration for such services, the Manager receives a monthly management fee, based on the net asset value of each Series, calculated daily and payable monthly. The Fund pays a management fee of 1.25% per annum for Series A units and 0.75% per annum for Series F units.

Service fees or trailing commissions of a maximum of 0.50% per annum are paid on Series A units to dealers. This comprises approximately 40% of the management fee of Series A units.

Year-by-Year Returns

Series A



Past Performance

The Fund became a reporting issuer on December 30, 2014. Accordingly, returns are shown for the relevant period/years as indicated below.

The performance information assumes that any distributions are reinvested in additional securities of the Fund. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. Past performance does not necessarily indicate how the series will perform in the future.

Series F



* For the period January 1 to June 30

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Summary of Investment Portfolio

| | % of NAV | | | % of NAV | |
|---------------------------|----------|-------------|-------------------------------|----------|--------------|
| Top 25 Issuers | | | Asset Mix | | |
| Enbridge Inc | % | 7.2 | Canadian Equities | % | 4.2 |
| Canadian Utilities Ltd | | 6.2 | Canadian Fixed Income | | 0.1 |
| Fortis Inc | | 5.8 | Cash and Cash Equivalents | | 1.5 |
| Fairfax Finl Hldgs Ltd | | 5.3 | Preferred Shares | | 93.5 |
| Great-West Lifeco Inc | | 5.3 | Other Assets less Liabilities | | 0.7 |
| Manulife Financial Corp | | 4.9 | Total | % | 100.0 |
| Tc Energy Corp | | 4.9 | Sector | | |
| Pembina Pipeline Corp | | 4.4 | Cash and Cash Equivalents | % | 1.5 |
| Bce Inc | | 4.1 | Communication Services | | 4.4 |
| George Weston Ltd | | 4.1 | Consumer Staples | | 4.1 |
| Sun Life Financial Inc | | 3.8 | Energy | | 19.2 |
| Brookfield Asset Man Inc | | 3.8 | Financials | | 39.3 |
| Power Financial Corp | | 3.8 | Industrials | | 1.9 |
| Emera Inc | | 3.5 | Other Assets less Liabilities | | 0.7 |
| Brookfield Office Prop | | 2.9 | Real Estate | | 5.6 |
| Artis Real Estate | | 2.6 | Utilities | | 23.3 |
| Altagas Ltd | | 2.2 | Total | % | 100.0 |
| Toronto-Dominion Bank | | 2.1 | | | |
| Cenovus Energy Inc | | 2.1 | | | |
| Thomson Reuters Corp | | 1.9 | | | |
| Algonquin Pwr & Utility | | 1.9 | | | |
| Royal Bank of Canada | | 1.8 | | | |
| Canadian Imperial Bank | | 1.7 | | | |
| Capital Power Corp | | 1.6 | | | |
| Cash And Cash Equivalents | | 1.5 | | | |
| Total | % | 89.4 | | | |



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