



AUGUST 2021

Slater Monthly Recap

The Canadian Preferred Share market had another solid month in August with the S&P/TSX Preferred Share Total Return Index (the “Index”) up 1.06%. Series F of Lysander-Slater Preferred Share Dividend Fund (the “Fund”) and Lysander-Slater Preferred Share *ActivETF* (the “ETF”) were in line with the Index at 1.05% and 1.08%, respectively.

The Limited Recourse Capital Note (“LRCN”) market saw one new issue in August, with Great West Life Financial (GWO) launching its first note. The \$1.5 billion 3.60% issue was 2x oversubscribed, and takes the total LRCN market capitalization up to approximately \$15.5 billion¹. In light of this new issue, we believe that GWO is likely to call in some of its high-coupon straight perpetual issues, including its \$194 million 5.9% GWO.PR.F and its \$150 million 5.8% GWO.PR.M.

During the month, Sun Life Financial surprised the marketplace² by calling in its \$400 million 4.75% SLF.PR.A and its \$350 million 4.80% SLF.PR.B straight perpetual issues. We believe that Sun Life Financial called these issues for redemption in response to the \$1 billion 3.6% LRCN that it issued this past June. The cost-benefit of redeeming Preferred Shares and issuing LRCNs (a relatively cheaper financing instrument) continues to be advantageous for issuers.

Year-to-date, nearly \$7.8 billion in Preferred Shares has been called, with an additional estimated \$2 billion to be called by year end³.

The 5-year Canada bond yield (the benchmark rate for resetting coupons on fixed resets) was volatile in August, fluctuating between 0.73% and 0.92%. The 5-year yield finished the month at 0.84%, up modestly from 0.80% at the end of July. The volatility was attributed largely to higher than expected job creation in the U.S. in July, and the uncertainty that rising delta variant Covid-19 cases would have on a global economic recovery.

Over the past several quarters, we have positioned 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 modified our position in fixed-resets with spreads between 225-300 bps, and with spreads under 225 bps, taking their total weighting in the Fund and the ETF to approximately 38% and 13%, respectively. 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. Bloomberg Finance L.P.

Standard Performance (As of AUGUST 31, 2021)

	1 YR (%)	3YR (%)	5YR (%)	Since Inception (%)
The Fund Series F	37.67%	3.34%	6.13%	3.45% (Dec. 30, 2014)
The ETF	37.79%	3.60%	6.34%	5.18% (Aug. 10, 2015)

Performance information for periods greater than 1 year is annualized.

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