



SEPTEMBER 2021

# Slater Monthly Recap

The Canadian Preferred Share market had another solid month in September with the S&P/TSX Preferred Share Total Return Index (the “Index”) gaining 0.87%. Series F of Lysander-Slater Preferred Share Dividend Fund (the “Fund”) and Lysander-Slater Preferred Share Activ*ETF* (the “ETF”) outperformed the Index, rising 1.25% and 1.20%, respectively.

The Canadian 5-year bond yield finished the month at 1.1%, which was close to a two-year high. Bond yields rose after the U.S. Federal Reserve announced that a reduction in its monthly bond purchases could be warranted soon. We believe this could signal interest rate hikes sometime in 2022, if the U.S. economy continues to recover from the Covid-19 pandemic.

Another catalyst in the month of September was the large amount of cash available to institutional and retail investors following the redemptions of Sunlife Financial (SLF.PR.A \$400MM), SLF.PR.B (\$325MM), and Brookfield Infrastructure (BIP.PR.C (\$250MM)<sup>1</sup> Preferred Shares. We believe that the bulk of redemption proceeds went back into the Preferred Share market, as we saw strong performance on the redemption dates.

Toronto Dominion Bank called in its \$1BN 4.85% rate reset issue (TD.PF.H) for October 31, 2021<sup>2</sup>. The move was highly anticipated following the bank’s announcement of a

\$1.75BN 3.60% LRCN back in July. This latest redemption brings YTD Preferred Share redemptions to over \$9BN.

Emera launched a \$150MM 4.6% straight perpetual in September, which was met with strong demand and was upsized to \$225MM. The Fund and ETF participated in the deal with both holding an approximate 1.8% weighting initially. However, both the Fund and ETF have since reduced their position by half, citing strong performance, as the issue traded at \$25.68 after the first trading day<sup>3</sup>.

The LRCN market saw one new issue in September, with CIBC launching a \$750MM 4% Note (its second LRCN). This new issue brings the total LRCN market to over \$16 BN<sup>4</sup>. We anticipate that CIBC will redeem its \$800MM 4.4% rate reset (CM.PR.R) when it becomes callable in July 2022<sup>5</sup>.

Over the past several quarters, we have positioned the Fund and ETF to benefit from an eventual increase in interest rates. Recently, we've been cycling out of fixed reset Preferred Shares that have reached or surpassed their \$25 par value, into more discounted resets that could perform well when interest rates rise. We've also increased our straight perpetual holdings in each of the Fund and ETF from an approximate weighting of 19% in August to 23% at the end of September. We believe this is an attractive sector given the yield pick-up that it offers, and how well the Emera 4.6% straight perpetual has performed.

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 SEPTEMBER 30, 2021)

	1 YR	3YR	5YR	Since Inception
The Fund Series F	39.50%	3.98%	6.23%	3.60% (Dec. 30, 2014)
The ETF	39.68%	4.21%	6.44%	5.31% (Aug. 10, 2015)

Performance information for periods greater than 1 year is annualized.

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