



OCTOBER 2021

Slater Monthly Recap

The Canadian Preferred Share market had another strong month in October with the S&P/TSX Preferred Share Total Return Index (the “Index”)* gaining 1.81%. Series F of Lysander-Slater Preferred Share Dividend Fund (the “Fund”) and Lysander-Slater Preferred Share *Activ*ETF (the “ETF”) outperformed the Index, gaining 2.26% and 2.29%, respectively.

Contributing to performance was an increase in the 5-year Canada bond yield which ended the month 40bps higher at 1.51%, a level not seen since late 2019. Global supply chain issues are affecting many industries, resulting in price increases and inflationary pressures. We believe that this will persist for the next few quarters and will cause central bankers to begin raising interest rates sometime in 2022 in order to cool inflation.

A further positive catalyst was the cash that was available on October 29, 2021, to investors following the redemption of \$1BN 4.85% Toronto Dominion Bank Preferred Shares (TD.PF.H)¹. Power Financial (“PWF”) called in its \$250MM 6% straight perpetual Preferred Share (PWF.PR.I)², which will be redeemed for cash on November 22, 2021. This latest redemption call was highly anticipated following the recent \$200MM new issue 4.6% straight perpetual Preferred Share by PWF³.

In late October, Royal Bank launched a new type of additional Tier 1 (AT1) capital instrument which was marketed to institutional investors. The new instrument is a fixed reset Preferred Share with a \$1,000 par value. It is trading over-the-counter and is eligible for the dividend tax credit. The \$750MM deal was priced with a 4.20%⁴ coupon and was

met with very strong demand. Each of the Fund and ETF will hold an approximate weighting of 2.5% in this issue upon closing on November 5, 2021.

We believe that Royal Bank was approaching the upward limit imposed by OSFI in terms of Limited Recourse Capital Note (“LRCN”) issuance. With OSFI’s guidance, the bank chose to raise Tier 1 capital through this new instrument, rather than issue a traditional retail-oriented \$25 par value fixed reset Preferred Share. OSFI’s goal is to reduce volatility in Preferred Share trading by establishing an institutional Preferred Share market where issues will trade over-the-counter like a bond. We believe other banks will eventually follow suit, but not until they have exhausted their allowable LRCN issuance limits. Many of the banks still have ample room to issue LRCNs.

We have increased our straight perpetual holdings in each of the Fund and ETF from an approximate weighting of 23% in September to 26% at the end of October. We believe this is an attractive sector given the yield pick-up that it offers at current valuations. We have also positioned both the Fund and ETF with an approximate weighting of 55% in fixed reset and floating rate Preferred Shares that are trading below par value and could benefit from rising interest rates.

The two factors that should help continue to support Preferred Share performance going forward are: 1) a further estimated \$8 billion in redemptions by the end of 2022, and 2) rising 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 and the ETF’s performance for the remainder of the year.

* The S&P/TSX Preferred Share Total Return Index is comprised of preferred shares trading on the Toronto Stock Exchange and is presented on a total return basis.
1, 2, 3, 4, 5 Bloomberg Finance L.P.

Standard Performance (As of OCTOBER 31, 2021)

	1 YR (%)	3 YR (%)	5 YR (%)	Since Inception (%)
The Fund Series F	43.59%	6.00%	6.24%	3.89% (Dec. 30, 2014)
The ETF	43.72%	6.26%	6.44%	5.62% (Aug. 10, 2015)

Performance information for periods greater than 1 year is annualized.

DISCLAIMER

This document has been prepared jointly by Lysander Funds Limited (“Lysander”) and Slater Asset Management Inc. (“Slater”) and solely for information purposes. Information in this document is not intended to constitute legal, tax, securities or investment advice and is made available on an "as is" basis. Neither Lysander nor Slater make any warranties or representations regarding the information herein. Information in this document is subject to change without notice. Neither Lysander nor Slater assume any duty to update any information herein. Certain information in this document has been derived or obtained from sources believed to be trustworthy and/or reliable. Neither Lysander nor Slater assume responsibility for the accuracy, currency, reliability or correctness of any such information.

Lysander is the investment fund manager of Lysander-Slater Preferred Share Dividend Fund and Lysander-Slater Preferred Share *Activ*ETF (collectively, the “Funds”). Slater is the portfolio manager of the Funds.

In this document, “we”, “us”, and “our” means Slater.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Investment funds are not guaranteed, their values change frequently, and past performance may not be repeated. The indicated rates of return are historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Different series may have different fees payable which may result in series of the same fund having a different rate of returns. You will usually pay brokerage fees to your dealer if you purchase or sell units of the ETF on the Toronto Stock Exchange (“TSX”). If the units are purchased or sold on the TSX, investors may pay more than the current net asset value when buying units of the ETF and may receive less than the current net asset value when selling them.

This document may contain forward-looking statements. Statements concerning a fund’s or entity’s objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates, and the business, operations, financial performance and condition are forward looking statements. The words “believe”, “expect”, “anticipate”, “estimate”, “intend”, “aims”, “may”, “will”, “would” and similar expressions and the negative of such expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These forward- looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from current expectations. Readers are cautioned not to place undue reliance on these forward-looking statements. While Lysander and Slater consider these risks and uncertainties to be reasonable based on information currently available, they may prove to be incorrect.

Nothing in this document should be considered a recommendation to buy, sell or short a particular security. Any specific securities discussed are intended as an illustration of the portfolio manager’s security selection process. A fund may sell these securities at any time, or purchase securities that have previously been sold. The securities or short positions may increase or decrease in value after the date hereof, and a fund may accordingly gain or lose money on the investment in the securities. The statements by the portfolio manager in their commentaries are intended to illustrate their approach in managing the funds, and should not be relied upon for any other purpose.

The source of all S&P/ TSX Indexes is TSX © Copyright 2021 TSX Inc. All Rights Reserved.

®Lysander Funds is a registered trademark of Lysander Funds Limited.