

JUNE 2022

Slater Monthly Recap

The Canadian Preferred Share market was not spared from global market volatility in June. As a result, the S&P/TSX Preferred Share Total Return Index (the “Index”) lost 5.29%. Following suit, series F of Lysander-Slater Preferred Share Dividend Fund (the “Fund”) and Lysander-Slater Preferred Share *Activ*ETF (the “ETF”) lost 5.32% and 5.31%, respectively, on a total return basis.

Inflation was once again in the headlines and the Bank of Canada (“BoC”) and U.S. Federal Reserve (“FED”) raised interest rates by 50-75bps. The BoC and the FED have stated that they will continue raising interest rates until inflation is under control, which, according to some analysts, will result in recession.

Most of the volatility in the Preferred Share market can be attributed to the 5-year Canada bond yield, which fluctuated between 3.10% and 3.62% in June. We feel that a range of 2.5%-3.0% would be healthier for the Preferred Share market, and believe the 5-year yield may settle in at that level over the next few years.

Not surprisingly, CIBC called in its \$800 million 3.38 basis point spread rate-reset (CM.PR.R) for the end of July¹. The bank subsequently issued an \$800 million 7.15% Limited Recourse Capital Note (“LRCN”), which has been trading above par since it was launched. This was a further example of a trend by the Canadian banks to reduce their exposure to traditional retail-owned Preferred Shares, in favour of LRCNs, which are issued to institutional investors. The goal is to reduce balance sheet volatility.

SLATER
ASSET
MANAGEMENT

Doug Grieve,
Portfolio Manager

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Year-to-date, over \$6.7BN² of Preferred Share product has been called for redemption, and we expect a further \$2.6BN to be called by year end.

In June, the Fund and the ETF sold their 1.3% holdings in floor fixed-resets, and added to lower-spread fixed-resets, which were relatively more attractive. We believe both the Fund and the ETF are now well positioned for a market recovery. We look forward to a much better second half to 2022 due to a stabilization in interest rates and continued Preferred Share redemptions.

As an active manager, we continually seek out the best opportunities in the Preferred Share market for our fund investors based on market conditions.

1, 2. Bloomberg Finance L.P.

Standard Performance (As of June 30, 2022)

| | 1 YR (%) | 3YR (%) | 5YR (%) | Since Inception (%) |
|-------------------|----------|---------|---------|-------------------------|
| The Fund Series F | -5.3% | 6.5% | 2.0% | 2.1% (Dec. 30, 2014) |
| The ETF | -5.3% | 6.7% | 2.1% | 3.4% (Aug. 10, 2015) |

Performance information for periods greater than 1 year is annualized.

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