

**Annual Management Report of Fund Performance**

As at December 31, 2022

Lysander-Slater Preferred Share ActivETF



**SLATER**

**ASSET MANAGEMENT**



# Lysander-Slater Preferred Share ActivETF

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## A Note About Forward Looking Statements

This 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 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 annual Management Report of Fund Performance of Lysander-Slater Preferred Share ActivETF (the “Fund”) contains financial highlights for the year ended December 31, 2022 but does not contain the complete financial statements of the Fund. This report should be read in conjunction with the annual financial statements of the Fund for the year ended December 31, 2022. 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 St., Suite 3037, Toronto, Ontario, M4N 3N1, by visiting our website at [www.lysanderfunds.com](http://www.lysanderfunds.com) or at SEDAR at [www.sedar.com](http://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 seeks to generate income while preserving investor capital by investing primarily in preferred shares in Canadian entities 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 will primarily be invested in preferred shares of Canadian issuers listed in Canada, using fundamental and credit research. The Fund will not be leveraged. More details are contained in the Fund’s prospectus.

## Risks

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

## Results of Operations

During the year, the S&P/TSX Preferred Share Index return was -18.08% and the Lysander-Slater Preferred Share ActivETF ( “the ETF”) return was -18.38%.

The net assets of the Fund were approximately \$74.6 million at December 31, 2022 from approximately \$100.8 million at the beginning of the year. This was primarily due to net redemptions of \$4.6 million, cash distributions of \$3.6 million and net operating losses of \$17.8 million during the year.

The second quarter of the year was challenged by both the Bank of Canada and U.S Central Bank fighting to control high inflationary levels not seen since the early 1980’s. The Central Banks loosened monetary policy by reducing interest rates at a record pace during the 2020 pandemic and were just as quick to increase them in 2022. The Canadian overnight rate increased from 0.25% at the start of 2022 and ended at 4.25%. The speed of which interest rates increased certainly shocked most asset classes including Preferred Shares. Another contributing factor to the volatility during the second half of the year were fund outflows from ETFs. Investors in Preferred Share ETFs and individual Preferred Shares took advantage of tax loss selling in a down year and caused an influx of selling pressure in the market. ETF market makers facing large redemptions were forced to sell the underlying ETF holdings regardless of price. Many Preferred Shares simply don’t have the liquidity that common shares have and this resulted in distorted pricing. An estimated \$1.2 billion of ETF redemptions occurred in 2022.

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The Fund continued to hold its positioning in fixed rate resets due to higher expected reset yields. Specifically, the Fund increased its weighting in 225-300bp spread resets from an approximate weighting of 45.8% at the beginning of July to 49.1% at the end of the year. Also, the Fund decreased its weighting in <225bp fixed rate resets from 23.9% at the beginning of July to 16.5% by the end December and increased its weighting in \$1000 institutional Preferred Shares that carry higher yields. The Fund decreased its straight perpetual exposure from 13% to approximately 10% at the end of December.

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 as described below.

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

## Recent Developments

Slater expected higher interest rates and the continued Preferred Share redemptions to have a positive effect on the market. Both events occurred yet the opposite happened. Slater believes that the speed of which rates increased and the geopolitical risk caused by the Russian invasion of Ukraine caught many investors off-guard including Preferred Shares investors. Bank of Canada and the Central Bank are nearing the end of monetary tightening and could begin to see spread tightening which would benefit Preferred Shares. With the recent market pullback and higher bond yields Preferred Shares look attractive from a yield standpoint, especially if the 5 year bond yield can hold in the range of 2.5 to 3.5%. Slater continues to position the Fund in discounted fixed rate resets that could reset higher over the next few years upon reset date, with an emphasis on 2024 resets.

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 involving the Fund.

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

## Related Party Transactions

The Manager provides or arranges to provide 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 prospectus.

The Fund paid \$574,598 (excluding HST) in management fees to the Manager for the year ended December 31, 2022 (December 31, 2021 - \$565,326).

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. Portfolio management fees for the Portfolio Manager's services are paid from the management fee.

The Manager paid \$324,648 (including HST) to the Portfolio Manager for the year ended December 31, 2022 (December 31, 2021 - \$319,409).

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

Year ended	31-Dec-2022	31-Dec-2021	31-Dec-2020	31-Dec-2019	31-Dec-2018
<b>Net assets per unit<sup>1</sup></b>					
Net assets, beginning of year	\$ 10.32	\$ 8.35	\$ 8.83	\$ 9.06	\$ 10.61
Operations:					
Total revenue	0.43	0.44	0.44	0.48	0.47
Total expenses	(0.11)	(0.14)	(0.12)	(0.10)	(0.14)
Realized gains (losses)	(0.14)	1.27	(1.33)	(1.05)	0.06
Unrealized gains (losses)	(2.04)	0.69	0.71	0.77	(1.62)
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ (1.86)</b>	<b>\$ 2.26</b>	<b>\$ (0.30)</b>	<b>\$ 0.10</b>	<b>\$ (1.23)</b>
Distributions:					
From income (excluding dividends)	\$ -	\$ -	\$ -	\$ -	\$ -
From dividends	(0.34)	(0.30)	(0.36)	(0.37)	(0.32)
From capital gains	-	-	-	-	(0.06)
Return of capital	(0.04)	(0.10)	(0.04)	(0.04)	(0.07)
<b>Total distributions<sup>2 3</sup></b>	<b>\$ (0.38)</b>	<b>\$ (0.40)</b>	<b>\$ (0.40)</b>	<b>\$ (0.41)</b>	<b>\$ (0.45)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$ 8.08</b>	<b>\$ 10.32</b>	<b>\$ 8.35</b>	<b>\$ 8.83</b>	<b>\$ 9.06</b>
<b>Ratios and supplemental data</b>					
Net asset value <sup>4</sup>	\$ 74,696,833	\$ 100,836,205	\$ 64,876,122	\$ 84,454,128	\$ 97,590,059
Units outstanding	9,243,150	9,769,000	7,769,000	9,569,000	10,769,000
Management expense ratio <sup>5</sup>	% 0.90	% 0.99	% 1.03	% 0.81	% 1.03
Management expense ratio before waivers or absorption	0.90	0.99	1.03	0.81	1.03
Portfolio turnover rate <sup>6</sup>	95	140	164	107	120
Trading expense ratio <sup>7</sup>	0.24	0.42	0.60	0.35	0.37
Net asset value per unit, end of year	8.08	10.32	8.35	8.83	9.06
Closing market price per unit <sup>4</sup>	\$ 8.07	\$ 10.29	\$ 8.33	\$ 8.80	\$ 9.08

## Notes

- The information is derived from the Fund's 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.
- 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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## 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.

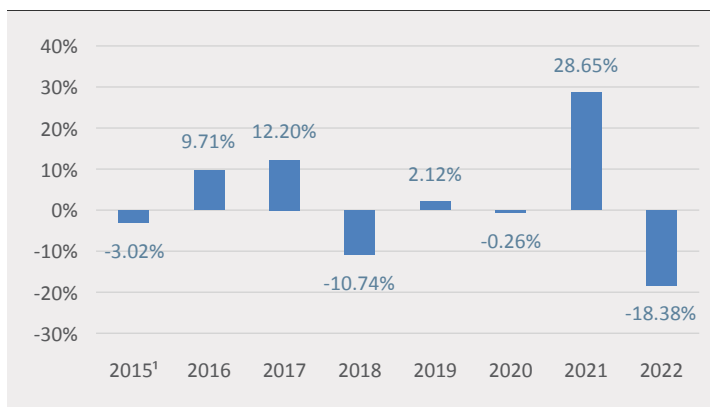
In consideration for such services, the Manager receives a management fee, based on the net asset value of the fund, calculated daily and payable monthly. The Fund pays a management fee at a rate of 0.65% per annum.

## Past Performance

The Fund's commenced operations on August 10, 2015. Accordingly, returns are shown for the relevant years/periods as indicated below.

The following charts and table show the past performance of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown assumes that cash distributions made by the Fund in the periods shown were reinvested in additional units of the Fund.

## Year-by-Year Returns



<sup>1</sup> For the period August 10 to December 31

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## Annual Compound Returns

The following table shows the Fund's annual compound return for each period indicated, compared with the S&P/TSX Preferred Share Total Return Index (the "Index").

For years ended December 31, 2022		1 Year		3 Year <sup>2</sup>		5 Year <sup>2</sup>		Since Inception <sup>3</sup>
<b>Annual Compound Return</b>								
Lysander-Slater Preferred Share ActivETF	%	(18.38)	%	1.56	%	(0.92)	%	1.79
S&P/TSX Preferred Share Total Return Index <sup>4</sup>	%	(18.08)	%	1.25	%	(0.22)	%	(2.09)

### Notes

<sup>1</sup> Returns are based on the net asset value per unit of the relevant series of the Fund and assume that all distributions were reinvested.

<sup>2</sup> Compound period returns are annualized.

<sup>3</sup> Period starting from August 10, 2015. Since inception returns are annualized.

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## Summary of Investment Portfolio

		% of NAV			% of NAV
<b>Top 25 Issuers</b>			<b>Asset Mix</b>		
Toronto-Dominion Bank	%	9.6	Equities	%	0.3
Enbridge Inc		9.4	Other Assets less Liabilities		1.9
Royal Bank Of Canada		7.6	Preferred Shares		97.8
Bank Of Montreal		6.2	<b>Total</b>	<b>%</b>	<b>100.0</b>
Fairfax Finl Hldgs Ltd		5.9	<b>Sector</b>		
BCE Inc.		5.6	Communication Services	%	5.8
Fortis Inc		4.8	Consumer Staples		0.6
Emera Inc.		4.5	Energy		19.5
Pembina Pipeline Corp		3.9	Financials		50.9
Great-West Lifeco Inc		3.9	Other Assets less Liabilities		1.9
Canadian Utilities Ltd.		3.6	Utilities		21.3
TC Energy Corp.		3.5	<b>Total</b>	<b>%</b>	<b>100.0</b>
Canadian Imperial Bank of Commerce		3.3			
Altagas Ltd		3.1			
Brookfield Asset Management		2.7			
Cenovus Energy Inc		2.6			
Sun Life Financial Inc		2.4			
Capital Power Corp		2.2			
Power Financial Corp		2.2			
Northland Power Inc		2.1			
Artis Real Estate		1.9			
Manulife Financial Corp		1.4			
Brookfield Office Prop		1.2			
Industrial Alliance		1.0			
National Bank Of Canada		1.0			
<b>Total</b>	<b>%</b>	<b>95.6</b>			



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