SLATER ASSET MANAGEMENT

LYSANDER FUNDS®

Slater Quarterly Recap

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LYZ920F
Lysander-Slater Preferred Share Dividend Fund

TSX:PR
Lysander-Slater Preferred Share *Activ*ETF

The Canadian Preferred Share market started off strongly in January, but then lost some ground in February and March. Overall however, the S&P/TSX Preferred Share Total Return Index (the "Index") posted a 2.27% gain in the first quarter of 2023. Series F of the Lysander-Slater Preferred Share Dividend Fund (the "Fund") and Lysander-Slater Preferred Share *Activ*ETF (the "ETF") outperformed the Index with gains of 3.46% and 3.43%, respectively, in Q1/23.

The Bank of Canada ("BoC") and the U.S. Federal Reserve ("Fed") remained committed to tackling inflation by continuing to raise interest rates, although the BoC paused in March. By the end of Q1, overnight lending rates were at their highest level since 2008, pre-financial crisis, with the BoC at 4.5% and the Fed in the 4.75%-5.00% range.

Aggressive interest rate actions by central bankers over the past year have exposed cracks in some banks' balance sheets. The United States saw both Silicon Valley Bank and Signature Bank fail in Q1, requiring emergency funds from the U.S. Government to protect the banks' depositors.

Credit Suisse ("CS") also faced failure in Q1, resulting in a Swiss government-orchestrated takeover by rival bank UBS.

As a result of the unique structure of CS's Additional Tier 1 ("AT1") capital, US$17 billion of CS AT1 capital notes were written down to zero while common shareholders were given UBS equity as part of the takeout agreement. The collapse of CS AT1 capital notes initially caused a panic through AT1 markets worldwide, including Canada's. However, in a timely statement from OSFI, investors were assured that Canadian AT1 notes, unlike Swiss instruments, do not contain mandatory principal write-down provisions, and are structured in a manner that respects the hierarchy of claims in the event of liquidation.

In terms of redemption activity in Q1, Industrial Alliance called in its 275bp spread rate reset (IAF.PR.I). The issue was trading at $24 at the time of the announcement, and caught the market by surprise. (Both our Fund and ETF held an approximate 1.9% weighting in this issue). A bigger surprise to the market was the decision by Artis REIT to extend its 393bp spread rate reset (AX.PR.I). The issue had been trading above par as the market expected it to be called, and its price has since fallen by approximately 25%. (Neither the Fund nor the ETF held the issue).

Interestingly, in early-2020, Artis REIT had called in its 313bp spread rate reset (AX.PR.G) and announced it would redeem all remaining outstanding rate resets on the next reset date. The company followed through on this statement last September when it redeemed its 406bp spread rate reset issue (AX.PR.A). So, choosing to reset AX.PR.I at a spread of 393bp, rather than redeem it, tells us that Artis REIT is not able to refinance more cost-efficiently at this point in time.

In terms of changes to our portfolio holdings, we have raised cash in the wake of global bank failures and with the risk of a recession in mind. We have brought each of the Fund's and ETF's cash positions up to approximately 15% (as of March 31, 2023). We also reduced each of the Fund's and ETF's rate reset weighting from 82% at the beginning of the year to approximately 58% and increased each of their straight perpetual weighting from 11% to 13.5%. The Fund and ETF also each held an approximate 8% weighting in high reset spread $1000 institutional Preferred Shares at quarter's end.

Looking forward, we believe that the Preferred Share market will trade sideways for the next few months as global markets deal with some of the uncertainties described above. However, if the 5-year Canada bond yield is able to maintain a range of 2.5%-3.25% over the next few years, the Preferred Share market should provide impressive yields upon reset, exceeding the 5-year Canada bond yield by some 300-500 bps.

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