SLATER ASSET MANAGEMENT

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Slater Quarterly Recap

The Canadian Preferred Share market was positive 2 out of 3 months in Q4/2023 and finished the year off strongly. Overall, the S&P/TSX Preferred Share Total Return Index (the "Index") was up 7.23% in Q4/2023. Series F of Lysander-Slater Preferred Share Dividend Fund (the "Fund"), and Lysander-Slater Preferred Share *Active*ETF (the "ETF") were up 7.1% and 7.0% respectively, in the quarter, on a total return basis.

For 2023, the Fund and the ETF each have outperformed the Index in their calendar year returns, with total returns of 8.3% for each of the Fund and the ETF, vs. 5.9% for the Index.

Persistent high inflation that has plagued many economies over the past several years has finally begun to show signs of slowing, causing the Bank of Canada ("BoC") and the U.S. Federal Reserve ("Fed") to hold interest rates, and signal potential rate cuts in 2024. In fact, the bond market has priced in 3 to 4 interest rate cuts next year causing the Canadian 5-year bond yield to drop to 3.2% at year-end from a high of 4.5% at the beginning of October.

There were several factors that contributed to a strong Q4 for Preferred Shares. Firstly, in November, AltaGas surprisingly called in their $200MM 317bp spread reset (ALA.PR.E) which was trading at $22.20 prior to being called, and in another less surprising move the Bank of Nova Scotia called in their $300MM 243bp fixed rate reset which was their only outstanding Preferred Share.

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LYZ920F
Lysander-Slater Preferred Share Dividend Fund

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

The latter continues to follow the narrative of getting bank paper (specifically Preferred Shares) out of the hands of retail, and into more institutional ownership through limited recourse capital notes ("LRCN") and $1K Preferred Shares. Overall, this is great news for Preferred Shares heading into 2024 as we expect continued redemption of bank issuance putting further pressure on the supply side of Preferred Shares.

Secondly, the 2023 Canadian federal budget proposal to tax banks' and insurance companies' preferred share dividend income as "income," was removed from the final budget. Note, this only applies to Preferred Shares, dividends received from common stock will still be subject to taxation. This alleviated the overhanging concern of financial institutions selling their Preferred Share investments and most likely contributed to institutions re-entering the market or purchasing more Preferred Shares.

Lastly, lower interest rates have forced risk-free assets to move to more normalized levels, making Preferred Shares attractive from a yield perspective. Specifically, fixed rate resets now yield in the range of 6 to 10% and straight perpetuals on average yield 6.6% both of which are tax efficient dividend income.

Despite a market recovery of over 8% in the last few months, we still believe the Preferred Share market has strong capital appreciation potential in 2024. Our view is that several of the 16 bank fixed rate resets that are due in 2024 will be called leading to a further supply constraint. Also, despite the CAD 5-year bond yield dropping over 1% in the past several months many fixed resets that are due for reset in 2024 will still have an expected yield of 200-500bps over the 5-year GoC bond (Assuming CAD 5-year GoC of 3.2%). We have positioned both the Fund and the ETF with approximately 40% in fixed resets that will reset in 2024. The risk to our outlook is that a severe recession occurs, resulting in extreme downward pressure on bond yields and financial markets in general.

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