

**Annual Management Report of Fund Performance**  
As at December 31, 2017

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, 2017 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, 2017. 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 us at Lysander Funds Limited, 100 York Boulevard, Suite 501, Richmond Hill Ontario, L4B 1J8, 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 us using one of these methods to obtain a copy of the investment 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 positions 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 or its amendments.

## Results of Operations

The Canadian Preferred Share market had another strong year in 2017 with the Canadian S&P/TSX Preferred Share Index posting a total return of 13.62%, while the Lysander Slater Preferred Share ActivETF (“ETF”) posted a total return of 12.20%.

The ETF benefited by continuing to add to its high quality deep discounted fixed reset allocation in anticipation of interest rates moving higher in Canada & the U.S. The Portfolio Manager’s belief was that the discounted Fixed Reset sector still offered attractive value and was poised for further recovery by year end. This thesis held true as the Bank of Canada (“BoC”) raised their key overnight lending rate by 25bps in both July and September of 2017, and finished at 1.0% by year end. Subsequently this led to the CDN 5-year BoC Bond Yield to increase from 1.4% at mid-year to 1.9% at year-end and led to the strong finish in Canadian Preferred Share market.

The ETF has increased its assets under management from approximately \$45.2 million at the beginning of the year to approximately \$90.9 million at the end of the year.

## Recent Developments

By the end of 2017 our view was that interest rates would eventually move higher and that the 5-Year BoC Bond Yield would finish around 1.75%. However, the strength in the Canadian economy surprised many with lower than expected unemployment rates and a recovery in oil prices helped support the BoC to raise interest rates quicker than anticipated. In Q3

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2017, the market saw two new deals come to the Canadian Preferred Share market (Kinder Morgan & Intact Financial), however most notable was the Bank of Nova Scotia's \$1.25 billion US NVCC Fixed to Floating rate Non-Cumulative Subordinated note, which was issued in the US, and was met with over \$2 billion in demand. This was noteworthy since this was an additional means for Canadian banks to raise Tier 1 capital besides issuing more equity or Preferred Shares. The success of this deal and the potential for other deals similar caused the market to anticipate lower bank issuance in Canada and subsequently caused existing Canadian bank Preferred Shares to increase in value. This view played true in parts as there were no new Preferred Share deals in Q4, and caused further spread tightening in the secondary market.

Slater continued to maintain the ETFs structure in discounted fixed resets that offered attractive projected reset yields upon reset with spreads between 150 – 300 basis points & Straight Perpetuals. The ETF was weighted 14% in Straight Perpetuals and 80% Fixed Resets at the end of June, and 79% Fixed Resets and 18% Straight Perpetuals at the end of December. This positioning played well as fixed resets continued to rally, and Slater strategically bought oversold discounted straight perpetuals that were attractive.

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.

There were changes to the membership of the Fund's Independent Review Committee ("IRC"). On January 31, 2017, Ruth Gould was appointed as an IRC member.

## Related Party Transactions

The Manager provides or arranges 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 \$440,954 (excluding HST) in management fees to the Manager for the year ended December 31, 2017 (December 31, 2016 - \$174,777).

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 is included in the management fee.

The Manager paid \$249,139 (including HST) to the Portfolio Manager for the year ended December 31, 2017 (December 31, 2016 - \$98,749).

The Fund did not rely on any approval, positive recommendation or standing instruction from its IRC with respect to any related party transactions.

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## Financial Highlights

Year ended	31-Dec-2017		31-Dec-2016		31-Dec-2015
Net assets per unit <sup>1</sup>					
Net assets, beginning of year	\$	10.11	\$	9.59	\$ 10.00*
Operations:					
Total revenue		0.50		0.52	0.19
Total expenses		(0.16)		(0.15)	(0.05)
Realized gains (losses)		0.55		0.07	(0.14)
Unrealized gains (losses)		0.28		0.83	(0.15)
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$</b>	<b>1.17</b>	<b>\$</b>	<b>1.27</b>	<b>\$ (0.15)</b>
Distributions:					
From dividends	\$	(0.27)	\$	(0.36)	\$ (0.10)
From capital gains		(0.44)		-	-
Return of Capital		(0.01)		(0.01)	(0.01)
<b>Total distributions<sup>2 3</sup></b>	<b>\$</b>	<b>(0.72)</b>	<b>\$</b>	<b>(0.37)</b>	<b>\$ (0.11)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$</b>	<b>10.61</b>	<b>\$</b>	<b>10.11</b>	<b>\$ 9.59</b>

<b>Ratios and supplemental data</b>					
Net asset value <sup>4</sup>	\$	90,895	\$	45,183,756	\$ 17,735,216
Units outstanding		8,569,000		4,469,000	1,850,000
Management expense ratio <sup>5</sup>	%	1.03	%	1.03	% 1.03
Management expense ratio before waivers or absorption		1.07		1.44	1.15
Portfolio turnover rate <sup>6</sup>		139		200	32
Trading expense ratio <sup>7</sup>		0.47		0.6	0.3
Net asset value per unit, end of year		10.61		10.11	9.59
Closing market price per unit <sup>4</sup>	\$	10.64	\$	10.14	\$ 9.50

## Notes

\* The Fund commenced operations on August 10, 2015.

**1** 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.

**2** Net assets and distributions are based on the actual numbers of units outstanding at the relevant time. The increase (decrease) in 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.

**3** Distributions were paid in cash.

**4** This information is provided at the end of the period shown.

**5** 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.

**6** 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.

**7** 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.

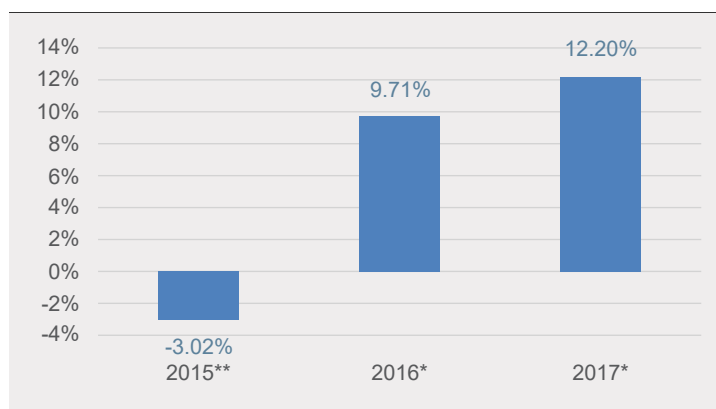
In consideration for such services, the Manager receives a monthly management fee, based on the net asset value of the fund, calculated daily and payable monthly. The Fund pays a management fee of 0.65% per annum.

## Past Performance

The Fund's commencement of operations as a reporting issuer was August 10, 2015. Accordingly, returns are shown for the relevant year 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 years shown were reinvested in additional units of the Fund.

## Year-by-Year Returns



\* For the period January 1 to December 31, \*\* 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.

For years ended December 31, 2017		1 Year		Since Inception <sup>3</sup>
Annual Compound Return				
Lysander-Slater Preferred Share ActivETF	%	12.20	%	7.68
S&P/TSX Preferred Share Total Return Index <sup>3</sup>	%	13.62	%	7.10

### 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> Period from August 10, 2015 to December 31, 2017. Since inception returns are annualized.

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## Summary of Investment Portfolio

% of NAV			% of NAV		
Top 25 Issuers			Asset Mix		
Fortis Inc.	%	8.2	Cash and cash equivalents	%	3.2
Enbridge Inc		7.9	Canadian Equities		0.4
Manulife Financial Corp.		7.3	Preferred Shares		99.1
Fairfax Financial Holdings Ltd.		6.7	Other assets less liabilities		(2.7)
Toronto Dominion Bank		6.7	<b>Total</b>	<b>%</b>	<b>100.0</b>
Sun Life Financial Inc.		6.6	Sector		
Altagas Ltd		6.0	Cash and cash equivalents	%	3.2
Power Financial Corp.		5.7	Consumer Staples		2.6
Canadian Utilities Ltd.		5.5	Energy		19.7
Emera Inc.		5.2	Financial Services		55.2
Industrial Alliance Insurance and Financial Services Inc		4.4	Other assets less liabilities		(2.7)
Canadian Imperial Bank of Commerce		3.7	Telecommunications Services		3.1
Brookfield office Properties Inc.		3.4	Utilities		18.9
Great West Lifeco		3.2	<b>Total</b>	<b>%</b>	<b>100.0</b>
Cash and cash equivalents		3.2			
Royal Bank of Canada		3.2			
BCE Inc.		3.1			
Trancanada Corp.		2.9			
Weston George Ltd.		2.6			
Bank of Montreal		2.1			
Pembina Pipeline Corp.		2.0			
Kinder Morgan Canada Ltd.		0.9			
National Bank of Canada		0.7			
Brookfield Asset Mgmt Inc.		0.7			
Bank of Montreal		0.4			
<b>Total</b>	<b>%</b>	<b>102.3</b>			



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