

## Annual Management Report of Fund Performance

As at December 31, 2017

# Lysander-Slater Preferred Share Dividend Fund



**SLATER**

**ASSET MANAGEMENT**



# Lysander-Slater Preferred Share Dividend Fund

Annual Management Report of Fund Performance as at December 31, 2017

## 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 simplified 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 Dividend Fund (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’s objective is to seek to generate income while preserving investor capital by investing primarily in preferred securities of Canadian issuers 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. The Fund may invest up to 30% of its

assets in foreign securities. More details are contained in the Fund’s simplified prospectus.

## Risks

On December 21, 2017, the Manager decreased the risk rating of the Fund from “medium” to “low-to-medium” in accordance with the new standardized methodology for classifying fund volatility mandated by the Canadian Securities Administrators. Please refer to the Fund’s most recent simplified prospectus or its amendments.

## Results of Operations

The Canadian Preferred Share market had another strong year in 2017 with the Canadian Preferred Share Index (TXPR) returning 13.62%, while the Lysander-Slater Preferred Share Dividend Fund Series F was up 12.18%.

The Fund benefited by continuing to add to its high quality deep discounted fixed reset allocation in anticipation of interest rates moving higher in Canada and 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 Fund increased its assets under management from \$58.5 million at the beginning of the year to \$88.0 million at the end of

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2017. This was primarily due to net purchases of approximately \$22.9 million.

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

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

## 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 2017, the market saw two new deals come to the Canadian Preferred Share market (Kinder Morgan and 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 Fund's structure in discounted fixed resets that offered attractive projected reset yields upon reset with spreads between 150 – 300 basis points and Straight Perpetuals. The Fund was weighted 13% 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 in the year. 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 Fund paid \$730,530 (including HST) in management fees to the Manager for the year ended December 31, 2017. (December 31, 2016: \$503,268).

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.

The Manager paid \$328,828 (including HST) to the Portfolio Manager for the year ended December 31, 2017 (December 31, 2016: \$211,538).

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

### Series A\*

Year ended	31-Dec-2017		31-Dec-2016		31-Dec-2015
Net assets per unit <sup>1</sup>					
Net assets, beginning of year	\$	9.32	\$	8.95	\$ 10.00
Operations:					
Total revenue		0.47		0.47	0.43
Total expenses		(0.16)		(0.13)	(0.15)
Realized gains (losses)		0.54		(0.37)	(0.23)
Unrealized gains (losses)		0.19		0.82	(0.88)
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$</b>	<b>1.04</b>	<b>\$</b>	<b>0.79</b>	<b>\$ (0.83)</b>
Distributions:					
From income (excluding dividends)	\$	-	\$	-	\$ -
From dividends		(0.29)		(0.30)	(0.19)
From capital gains		(0.10)		-	-
<b>Total distributions<sup>2 3</sup></b>	<b>\$</b>	<b>(0.39)</b>	<b>\$</b>	<b>(0.30)</b>	<b>\$ (0.19)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$</b>	<b>10.00</b>	<b>\$</b>	<b>9.32</b>	<b>\$ 8.95</b>

<b>Ratios and supplemental data</b>					
Net asset value <sup>4</sup>	\$	25,459,510	\$	17,007,583	\$ 12,855,142
Units outstanding		2,545,622		1,824,172	1,436,244
Management expense ratio <sup>5</sup>	%	1.55	%	1.56	% 1.61
Management expense ratio before waivers or absorption		1.55		1.56	1.61
Portfolio turnover rate <sup>6</sup>		132.0		175.5	73.0
Trading expense ratio <sup>7</sup>		0.5		0.6	0.5
Net asset value per unit, end of year	\$	10.00	\$	9.32	\$ 8.95

### Notes

\* The Fund became a reporting issuer on December 30, 2014 and accordingly prior period numbers are not available.

**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 or reinvested in additional units, or both.

**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.

# Lysander-Slater Preferred Share Dividend Fund

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## Series F\*

Year ended	31-Dec-2017		31-Dec-2016		31-Dec-2015
Net assets per unit <sup>1</sup>					
Net assets, beginning of year	\$	9.35	\$	8.97	\$ 10.00
Operations:					
Total revenue		0.47		0.47	0.43
Total expenses		(0.10)		(0.09)	(0.10)
Realized gains (losses)		0.54		(0.38)	(0.24)
Unrealized gains (losses)		0.19		0.87	(0.81)
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$</b>	<b>1.10</b>	<b>\$</b>	<b>0.87</b>	<b>\$ (0.72)</b>
Distributions:					
From income (excluding dividends)	\$	-	\$	-	\$ -
From dividends		(0.34)		(0.33)	(0.24)
From capital gains		(0.10)		-	-
<b>Total distributions<sup>2 3</sup></b>	<b>\$</b>	<b>(0.44)</b>	<b>\$</b>	<b>(0.33)</b>	<b>\$ (0.24)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$</b>	<b>10.04</b>	<b>\$</b>	<b>9.35</b>	<b>\$ 8.97</b>
Ratios and supplemental data					
Net asset value <sup>4</sup>	\$	62,559,365	\$	41,523,722	\$ 30,243,779
Units outstanding		6,232,411		4,440,131	3,373,082
Management expense ratio <sup>5</sup>	%	0.98	%	1.00	% 1.05
Management expense ratio before waivers or absorption		0.98		1.00	1.05
Portfolio turnover rate <sup>6</sup>		132.0		175.5	73.0
Trading expense ratio <sup>7</sup>		0.5		0.6	0.5
Net asset value per unit, end of year	\$	10.04	\$	9.35	\$ 8.97

## Notes

\* The Fund became a reporting issuer on December 30, 2014 and accordingly prior period numbers are not available.

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 or reinvested in additional units, or both.

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

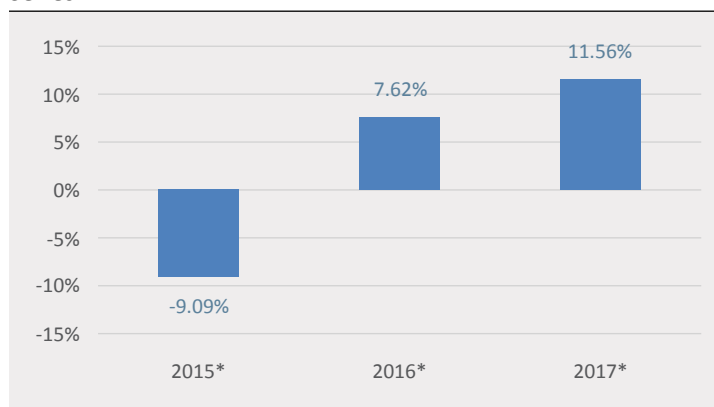
The Manager provides or arranges the provision of all general management and administrative services required by the Fund, and as described in the section “Related Party Transactions” above.

In consideration for such services, the Manager receives a monthly management fee, based on the net asset value of each Series, calculated daily and payable monthly. The Fund pays a management fee of 1.25% per annum for Series A units and 0.75 % per annum for Series F units.

Service fees or trailing commissions of a maximum of 0.50% per annum are paid on Series A units to dealers. This comprises approximately 40% of the management fee of Series A units.

## Year-by-Year Returns

### Series A

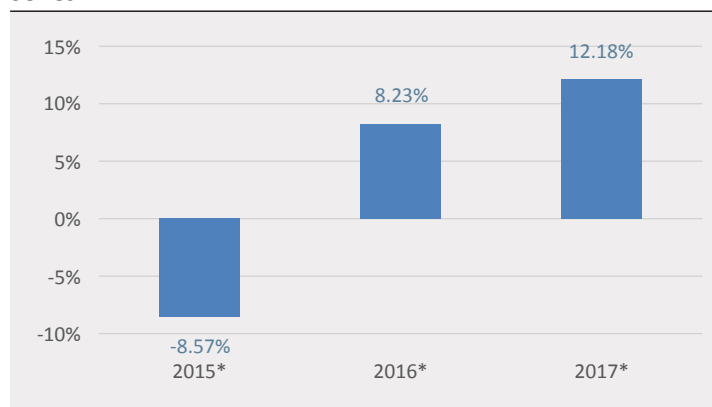


## Past Performance

The Fund became a reporting issuer on December 30, 2014. Accordingly, returns are shown for the relevant period as indicated below.

The performance information assumes that any distributions are reinvested in additional securities of the Fund. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. Past performance does not necessarily indicate how the series will perform in the future.

### Series F



\* For the period January 1 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 Index (the "Index"). The returns of the Index are calculated without the deduction of fees and expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses.

For years ended December 31, 2017		1 Year		3 Year <sup>2</sup>		Since Inception <sup>3</sup>	
Annual Compound Return							
Series A <sup>1</sup>	%	11.56	%	2.96	%	2.96	
Series F <sup>1</sup>		12.18		3.54		3.54	
S&P/TSX Preferred Share Total Return Index <sup>4</sup>	%	13.62	%	1.11	%	1.24	

### 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 December 30, 2014. Since inception returns are annualized.

<sup>4</sup> Source: TSX Inc. Copyright © TSX Inc. All rights reserved.

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## Summary of Investment Portfolio

% of NAV			% of NAV		
Top 25 Issuers			Asset Mix		
Fortis Inc.	%	7.9	Canadian Equities	%	0.4
Enbridge Inc.		7.5	Cash and Cash Equivalents		1.7
Manulife Financial Corp.		7.4	Other Assets less Liabilities		0.3
Fairfax Financial		6.7	Preferred Shares		97.6
Toronto Dominion Bank		6.4	<b>Total</b>	<b>%</b>	<b>100.0</b>
Emera Inc.		6.4	<b>Sector</b>		
Sun Life Financial Inc.		6.2	Cash and Cash Equivalents	%	1.7
AltaGas Ltd.		5.8	Consumer Staples		2.4
Power Financial Corp.		5.7	Energy		18.4
Canadian Utilities Limited		5.4	Financials		51.2
Industrial Alliance 4.3% Series 6		4.8	Other Assets less Liabilities		0.3
Canadian Imperial Bank of Commerce		3.6	Real Estate		3.0
BCE Inc.		3.4	Telecommunication Services		3.4
Royal Bank of Canada		3.2	Utilities		19.6
Brookfield Office Properties Inc.		3.0	<b>Total</b>	<b>%</b>	<b>100.0</b>
Bank of Montreal		2.8			
TransCanada Corporation		2.7			
George Weston Limited		2.4			
Great-West LifeCo Inc.		2.1			
Pembina Pipeline Corp.		1.7			
Cash and Cash Equivalents		1.7			
Great West Life Insurance		0.7			
Kinder Morgan Canada		0.7			
Brookfield Asset Management Inc.		0.7			
National Bank Financial		0.7			
<b>Total</b>	<b>%</b>	<b>99.6</b>			





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