

Annual Management Report of Fund Performance

As at December 31, 2018

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, 2018

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, 2018 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, 2018. 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, 100 York Boulevard, Suite 501, Richmond Hill, Ontario, L4B 1J8, by visiting our website at www.lysanderfunds.com or at SEDAR at 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’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 are primarily 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

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

Results of Operations

Canadian preferred shares sold off sharply in the second half of 2018 (particularly Q4), following a weaker than expected first half in 2018. The S&P/TSX Canadian Preferred Share index finished the year down 7.93%, while the Lysander Slater Preferred Share Dividend Fund Series F was down 10.70%.

There were several factors that put pressure on the preferred share market in Q4 2018. One of the main reasons was the ongoing trade tariff disputes between the worlds’ largest economies (U.S and China) and ultimately how that would affect economic growth across the world. This along with the sharp drop in oil prices forced the Bank of Canada (“BOC”) to lower their own expectations for future growth, and ultimately affected the 5-Year bond yield in Canada which is the benchmark for Fixed Reset Preferred Shares coupon rate upon maturity. Another factor was large fund flow redemptions on Preferred Share ETF’s whereby the designated broker for the ETF’s must facilitate a redemption by selling the underlying portfolio preferred shares to raise the necessary funds for the redemption. In an illiquid market, this can cause a liquidity squeeze thus affecting the performance for preferred shares.

Slater gradually increased the Fund’s exposure to discounted fixed reset preferred shares (“Fixed Resets”) and reduced

Lysander-Slater Preferred Share Dividend Fund

Annual Management Report of Fund Performance as at December 31, 2018

straight perpetual preferred shares ("Straight Perpetuals") on the expectation for higher interest rates throughout Q3 of 2018. The Fund's exposure to Fixed Resets rose from 64% mid-year to 73% at year end and reduced Straight Perpetuals from 31% to 26% at year end. An unexpected headwind was the sudden drop in bond yields whereby the 5-Year GoC yield was at 2.45% in early November and finished the year at 1.89%. The Fund's approximate weighting of 71% in discounted Fixed Resets did not work out as they were an underperforming subsector in Q4 of 2018.

The Fund's assets under management increased from approximately \$88 million at December 31, 2017 to approximately \$101 million at December 31, 2018.

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 described.

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

Recent Developments

At the beginning of the year Slater's thesis was that interest rates would eventually continue higher and that the 5-Year BoC Bond Yield would be around 2.25%. On-going disputes between the U.S and Canada over trade tariffs continued into Q3, and the Bank of Canada was cautious on raising interest rates because of uncertainties with regards to trade with the U.S. That deal ultimately came in Q3 as the US, Canada, and Mexico signed a new deal (USMCA) and was subsequently seen as a fair deal for Canada. With a new deal in place the Bank of Canada was better able to predict how tariffs may affect the future growth rate of Canada, and raised the overnight interest rate to 1.75%, the third interest rate hike of 2018. With higher interest rates the expectation is for higher coupon rates in the future for Fixed Resets which helped support Slater's thesis for the Fund owning discounted Fixed Reset.

As discussed, the sudden surprise in the drop of oil prices and lower expectation of future growth for world economies sent bond yields lower in mid Q4 and had a negative effect on Canadian preferred shares. As a hedge the Fund owns approximately 25% in Straight Perpetuals, which should perform better in a falling interest rate environment than Fixed Resets.

Slater believes that the Q4 sell-off in preferred shares was oversold with a large factor for the sell-off being ETF redemptions causing a liquidity squeeze on preferred shares rather than a sound fundamental reasoning. The Bank of Canada

announced that they expect to lower their inflationary target for the time being and are still committed to raising interest on a wait and see basis. Slater is comfortable with the Fund's positioning as spreads have widened and are offering attractive valuations due to the Q4.

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

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 \$1,063,344 (including HST) in management fees to the Manager for the year ended December 31, 2018. (December 31, 2017: \$730,530).

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 \$452,673 (including HST) to the Portfolio Manager for the year ended December 31, 2018 (December 31, 2018: \$328,828).

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.

Lysander-Slater Preferred Share Dividend Fund

Annual Management Report of Fund Performance as at December 31, 2018

Financial Highlights

Series A*

Year ended	31-Dec-2018	31-Dec-2017	31-Dec-2016	31-Dec-2015
Net assets per unit¹				
Net assets, beginning of year	\$ 10.00	\$ 9.32	\$ 8.95	\$ 10.00
Operations:				
Total revenue	0.45	0.47	0.47	0.43
Total expenses	(0.15)	(0.16)	(0.13)	(0.15)
Realized gains (losses)	0.11	0.54	(0.37)	(0.23)
Unrealized gains (losses)	(1.56)	0.19	0.82	(0.88)
Total increase (decrease) from operations²	\$ (1.15)	\$ 1.04	\$ 0.79	\$ (0.83)
Distributions:				
From income (excluding dividends)	\$ -	\$ -	\$ -	\$ -
From dividends	(0.27)	(0.29)	(0.30)	(0.19)
From capital gains	(0.12)	(0.10)	-	-
Total distributions^{2 3}	\$ (0.39)	\$ (0.39)	\$ (0.30)	\$ (0.19)
Net assets, end of year^{2 3}	\$ 8.53	\$ 10.00	\$ 9.32	\$ 8.95

Ratios and supplemental data				
Net asset value ⁴	\$ 25,951,516	\$ 25,459,510	\$ 17,007,583	\$ 12,855,142
Units outstanding	3,041,701	2,545,622	1,824,172	1,436,244
Management expense ratio ⁵	% 1.53	% 1.55	% 1.56	% 1.61
Management expense ratio before waivers or absorption	1.53	1.55	1.56	1.61
Portfolio turnover rate ⁶	104.8	132.0	175.5	73.0
Trading expense ratio ⁷	0.4	0.5	0.6	0.5
Net asset value per unit, end of year	\$ 8.53	\$ 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) 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.

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

Annual Management Report of Fund Performance as at December 31, 2018

Series F*

Year ended	31-Dec-2018	31-Dec-2017	31-Dec-2016	31-Dec-2015
Net assets per unit¹				
Net assets, beginning of year	\$ 10.04	\$ 9.35	\$ 8.97	\$ 10.00
Operations:				
Total revenue	0.45	0.47	0.47	0.43
Total expenses	(0.10)	(0.10)	(0.09)	(0.10)
Realized gains (losses)	0.11	0.54	(0.38)	(0.24)
Unrealized gains (losses)	(1.64)	0.19	0.87	(0.81)
Total increase (decrease) from operations²	\$ (1.18)	\$ 1.10	\$ 0.87	\$ (0.72)
Distributions:				
From income (excluding dividends)	\$ -	\$ -	\$ -	\$ -
From dividends	(0.33)	(0.34)	(0.33)	(0.24)
From capital gains	(0.10)	(0.10)	-	-
Total distributions^{2 3}	\$ (0.43)	\$ (0.44)	\$ (0.33)	\$ (0.24)
Net assets, end of year^{2 3}	\$ 8.58	\$ 10.04	\$ 9.35	\$ 8.97
Ratios and supplemental data				
Net asset value ⁴	\$ 74,783,460	\$ 62,559,365	\$ 41,523,722	\$ 30,243,779
Units outstanding	8,717,097	6,232,411	4,440,131	3,373,082
Management expense ratio ⁵	% 0.97	% 0.98	% 1.00	% 1.05
Management expense ratio before waivers or absorption	0.97	0.98	1.00	1.05
Portfolio turnover rate ⁶	104.8	132.0	175.5	73.0
Trading expense ratio ⁷	0.4	0.5	0.6	0.5
Net asset value per unit, end of year	\$ 8.58	\$ 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.

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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

Annual Management Report of Fund Performance as at December 31, 2018

Management Fees

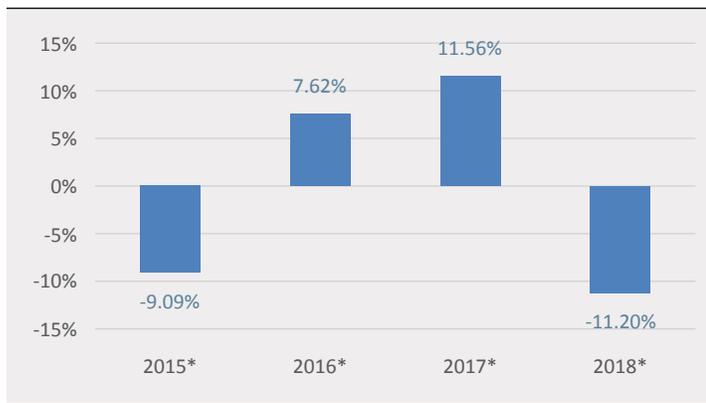
The Manager provides or arranges the provision of all general management and administrative services required by the Fund, and as described in the section “Related Party Transactions” above.

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

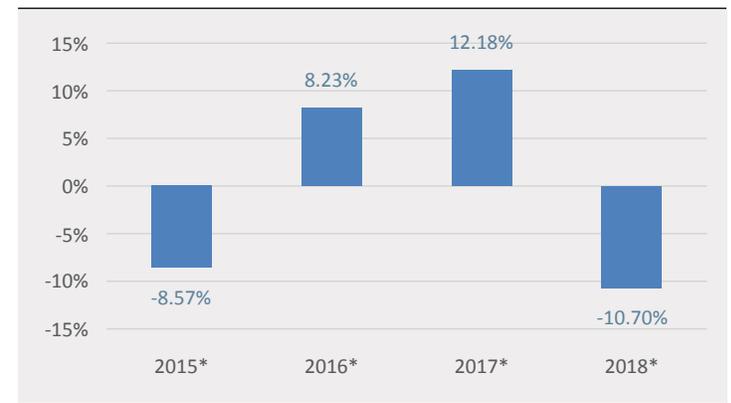


Past Performance

The Fund became a reporting issuer on December 30, 2014. Accordingly, returns are shown for the relevant year 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

Lysander-Slater Preferred Share Dividend Fund

Annual Management Report of Fund Performance as at December 31, 2018

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, 2018		1 Year		3 Year ²		Since Inception ³
Annual Compound Return						
Series A ¹	%	(11.20)	%	2.16	%	(0.78)
Series F ¹		(10.70)		2.73		(0.22)
S&P/TSX Preferred Share Total Return Index ⁴	%	(7.93)	%	3.82	%	(1.13)

Notes

- 1 Returns are based on the net asset value per unit of the relevant series of the Fund and assume that all distributions were reinvested.
- 2 Compound period returns are annualized.
- 3 Period starting from December 30, 2014. Since inception returns are annualized.
- 4 Source: TSX © Copyright 2019 TSX Inc. All rights reserved.

Lysander-Slater Preferred Share Dividend Fund

Annual Management Report of Fund Performance as at December 31, 2018

Summary of Investment Portfolio

	% of NAV			% of NAV	
Top 25 Issuers			Asset Mix		
Sun Life Financial Inc.	%	8.2	Canadian Equities	%	0.5
Power Financial Corp.		7.4	Cash and Cash Equivalents		1.2
Canadian Utilities Limited		7.3	Preferred Shares		98.3
TransCanada Corporation		7.1	Total	%	100.0
Emera Inc.		7.0	Sector		
Enbridge Inc.		6.9	Cash and Cash Equivalents	%	1.2
Fairfax Financial		6.0	Consumer Staples		2.4
Royal Bank of Canada		5.9	Energy		20.7
Fortis Inc.		5.4	Financials		50.2
Manulife Financial Corp.		4.6	Real Estate		1.6
Great-West LifeCo Inc.		4.3	Telecommunication Services		1.4
Bank of Montreal		3.4	Utilities		22.5
Industrial Alliance		3.3	Total	%	100.0
Kinder Morgan Canada		2.9			
George Weston Limited		2.4			
Toronto Dominion Bank		2.3			
Pembina Pipeline Corp.		2.1			
National Bank		1.9			
Altagas Ltd.		1.7			
Brookfield Office Properties Inc.		1.6			
Northland Power		1.5			
Canadian Imperial Bank of Commerce		1.4			
BCE Inc.		1.4			
Cash and Cash Equivalents		1.2			
Brookfield Asset Management Inc.		1.1			
Total	%	98.3			



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