

Annual Management Report of Fund Performance

As at December 31, 2020

Lysander-Slater Preferred Share ActivETF



SLATER

ASSET MANAGEMENT



Lysander-Slater Preferred Share ActivETF

Annual Management Report of Fund Performance as at December 31, 2020

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, 2020 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, 2020. 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, 3080 Yonge St., Suite 3037, Toronto, Ontario, M4N 3N1, 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 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 simplified prospectus or its amendments.

Results of Operations

Preferred Shares had a much better second half in 2020 with the S&P/TSX Preferred Share Total Return Index up 19.5%, finishing the year up 6.16%. While the Fund had a 6 month return of 20.7% finishing the year -0.26%.

Continued government support from both the U.S and Canadian Governments helped ease the financial burden on individuals and businesses due to COVID-19. The Bank of Canada and the U.S Federal Reserve both stated that interest rates would remain low for the foreseeable future, and as such the 5 year CAD bond yield remained near historical lows of 0.45% to end the year. Continued support from the Bank of Canada and the Federal Reserve helped equity markets continue to recover along with Preferred Shares. A key factor that helped spark a Preferred Share rally was the introduction of Limited Resource Capital Notes (“LRCN”) issued by banks that essentially allows banks to issue tier 1 capital ratio debt at a lower cost of capital than Preferred Shares. As a result, the expectation is of less new issuance in Preferred Shares causing a shortage in product. Also, banks are expected to call in more expensive Preferred Shares upon reset and re-issue LRCNs at a lower cost. Indeed, all the Canadian big 6 banks have issued LRCNs except for TD and Scotia. The Preferred Share market saw \$3.5BN in Preferred Share product get redeemed and only one new issue hitting the market in 2020 causing a squeeze on secondary market supply.

With the introduction of the first LRCN issue by RBC in July, the Fund began to shift its focus to mid spread fixed reset Preferred

Lysander-Slater Preferred Share ActivETF

Annual Management Report of Fund Performance as at December 31, 2020

Shares of 250-350bp as anticipated a market rally in the following months. The Fund slightly reduced its straight perpetual Preferred Share weighting from 21.7% at the end of June to 18.3% at year end sighting a potential recovery in rates in 2021 and due to the relative outperformance of straight perpetuials. The Fund also increased its fixed reset exposure from 69.8% to 74.4% at year end, but most notably increased its 225-300bp reset exposure from 23.2% to 38.3% by year end. This sector of resets were hurt the most in the first half of 2020, but also provided the highest return in the second half of 2020.

The Fund's net assets under management decreased to approximately \$64.8 million at December 31, 2020 from approximately \$84.4 million at the beginning of the year. This was primarily due to net redemptions of \$13.7 million, cash distributions of \$3.3 million and net losses of \$2.5 million during the year.

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 have been described below.

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

Recent Developments

The changes made mid year due to the introduction of LRCN benefited the portfolio as the Fund returned 10.34% in Q4 while the Index returned 7.31%. The Fund anticipates an estimated \$8 billion of Preferred Share redemptions in 2021 as we believe many of the 2016 issued Preferred Shares will be redeemed this year since they were issued with high fixed spreads that are simply too costly to keep outstanding. The Fund expects these issuers (Banks, Insurance, Pipelines, etc) to re-issue at lower costs through the corporate bond market. If this were to happen, this will likely cause further price increases in the secondary market of Preferred Shares if investors deploy most of their proceeds into other dividend paying Preferred Shares. Another catalyst that could help Preferred Shares performance is a possible economic recovery in the latter half of the 2021 as people get vaccinated and are able to resume normal business activity after the pandemic. This certainly would help spur economic growth, and could lead to a rise in inflation and a rise in the 5 year Canadian bond yield which is the benchmark rate for fixed reset Preferred Shares.

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 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 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 \$415,312 (excluding HST) in management fees to the Manager for the year ended December 31, 2020 (December 31, 2019 - \$627,035).

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 \$234,651 (including HST) to the Portfolio Manager for the year ended December 31, 2020 (December 31, 2019 - \$354,275).

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 ActivETF

Annual Management Report of Fund Performance as at December 31, 2020

Financial Highlights

Year ended	31-Dec-2020	31-Dec-2019	31-Dec-2018	31-Dec-2017	31-Dec-2016
Net assets per unit¹					
Net assets, beginning of year	\$ 8.83	\$ 9.06	\$ 10.61	\$ 10.11	\$ 9.59
Operations:					
Total revenue	0.44	0.48	0.47	0.50	0.52
Total expenses	(0.12)	(0.10)	(0.14)	(0.16)	(0.15)
Realized gains (losses)	(1.33)	(1.05)	0.06	0.55	0.07
Unrealized gains (losses)	0.71	0.77	(1.62)	0.28	0.83
Total increase (decrease) from operations²	\$ (0.30)	\$ 0.10	\$ (1.23)	\$ 1.17	\$ 1.27
Distributions:					
From dividends	\$ (0.36)	\$ (0.37)	\$ (0.32)	\$ (0.27)	\$ (0.36)
From capital gains	-	-	(0.06)	(0.44)	-
Return of Capital	(0.04)	(0.04)	(0.07)	(0.01)	(0.01)
Total distributions^{2 3}	\$ (0.40)	\$ (0.41)	\$ (0.45)	\$ (0.72)	\$ (0.37)
Net assets, end of year^{2 3}	\$ 8.35	\$ 8.83	\$ 9.06	\$ 10.61	\$ 10.11

Ratios and supplemental data					
Net asset value ⁴	\$ 64,876,122	\$ 84,454,128	\$ 97,590,059	\$ 90,895,230	\$ 45,183,756
Units outstanding	7,769,000	9,569,000	10,769,000	8,569,000	4,469,000
Management expense ratio ⁵	% 1.03	% 0.81	% 1.03	% 1.03	% 1.03
Management expense ratio before waivers or absorption	1.03	0.81	1.03	1.07	1.44
Portfolio turnover rate ⁶	164	107	120	139	200
Trading expense ratio ⁷	0.60	0.35	0.37	0.47	0.60
Net asset value per unit, end of year	8.35	8.83	9.06	10.61	10.11
Closing market price per unit ⁴	\$ 8.33	\$ 8.80	\$ 9.08	\$ 10.64	\$ 10.14

Notes

- 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.
- 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.
- Distributions were paid in cash.
- This information is provided at the end of the period shown.
- 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.
- 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.
- 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 ActivETF

Annual Management Report of Fund Performance as at December 31, 2020

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 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 commenced operations on August 10, 2015. Accordingly, returns are shown for the relevant years/periods 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 periods shown were reinvested in additional units of the Fund.

Year-by-Year Returns



* For the period August 10 to December 31

Lysander-Slater Preferred Share ActivETF

Annual Management Report of Fund Performance as at December 31, 2020

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, 2020		1 Year		3 Year ²		5 Year ²		Since Inception ³
Annual Compound Return								
Lysander-Slater Preferred Share ActivETF	%	(0.26)	%	(3.12)	%	2.28	%	1.53
S&P/TSX Preferred Share Total Return Index ⁴	%	6.16	%	0.38	%	4.22	%	3.32

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 from August 10, 2015 to December 31, 2020. Since inception returns are annualized.
- 4 Source: TSX © Copyright 2020 TSX Inc. All rights reserved.

Lysander-Slater Preferred Share ActivETF

Annual Management Report of Fund Performance as at December 31, 2020

Summary of Investment Portfolio

	% of NAV		% of NAV
Top 25 Issuers		Asset Mix	
Enbridge Inc	6.2	Canadian Equities	3.5
Manulife Financial Corporation	5.8	Cash and Cash Equivalents	1.3
Canadian Utilities Limited	5.6	Fixed Income	0.2
Bank of Montreal	5.5	Preferred Shares	95.3
Great West Lifeco Inc	5.3	Other Assets less Liabilities	(0.3)
Emera Inc	5.1	Total	100.0
Brookfield Asset Management Inc	4.5	Sector	
Power Financial Corporation	4.3	Cash and Cash Equivalents	1.3
Fairfax Financial Holdings Ltd	4.2	Communication Services	3.6
TC Energy Corp	4.1	Consumer Staples	3.4
Canadian Imperial Bank of Commerce	4.1	Energy	16.6
Sun Life Financial Inc	4.1	Financials	55.6
BCE Inc	3.6	Industrials	0.4
Pembina Pipeline Corporation	3.5	Information Technology	1.0
George Weston Limited	3.4	Other Assets less Liabilities	(0.3)
Toronto Dominion Bank	3.1	Utilities	18.4
Artis REIT	2.8	Total	100.0
Fortis Inc	2.8		
National Bank of Canada	2.8		
Industrial Alliance Insurance And Financial Services Inc	2.7		
Royal Bank of Canada	2.2		
Altagas Ltd	1.8		
Brookfield Office Properties Inc	1.8		
Northland Power Inc	1.6		
Bank of Nova Scotia	1.5		
Total	92.4		



3080 Yonge Street, Suite 3037
Toronto, ON M4N 3N1
www.lysanderfunds.com

© Lysander Funds is a registered trademark of Lysander Funds Limited