

# Leith Wheeler Preferred Share Fund

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

December 31, 2021



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This annual management report of fund performance contains financial highlights, but does not contain complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-888-292-1122, by writing to us at 1500 – 400 Burrard Street, Vancouver, BC V6C 3A6 or by visiting our website at [www.leithwheeler.com](http://www.leithwheeler.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## Management Discussion of Fund Performance

### Investment Objective and Strategies

To provide investors with income and the opportunity for long term capital appreciation by investing primarily in a portfolio of Canadian preferred share securities. This Fund invests primarily in publicly listed preferred shares, including securities convertible into preferred shares, with a minimum preferred share quality of Pfd-3(low) (per Dominion Bond Rating Service or equivalent).

### Risk

The overall risks of investing in the Fund are as described in the Simplified Prospectus. There were no material changes to the Fund during the year that affected the overall level of risk.

### Results of Operations

The Fund's net assets increased by 31.1% in 2021, rising to \$67.9 million from \$51.8 million at the end of 2020. Of this change, \$13.3 million was attributable to positive investment performance and \$2.8 million to net inflows from unitholders.

The Preferred Share Fund had strong returns during 2021 with Series A units advancing +25.0%. Series B and Series F units advanced by +23.9% and +24.0% respectively, both after fees and expenses, during the year. As of December 31, the Fund was made up of 85.1% rate reset preferred shares, 13.1% perpetual preferred shares and 1.8% cash and equivalents.

Over the year, the Fund outperformed the S&P/TSX Preferred Share Index, rising by +25.0% while the index was up +19.4%. This wrapped up a very strong year for preferred shares, as spreads tightened in throughout the year.

Government of Canada five-year bond yields continued their ascent to end the year at 1.3%, primarily in reaction to the change in signaling from the Bank of Canada, indicating it would likely be embarking on a monetary tightening cycle in the spring of 2022, ahead of the previously signaled timing of mid-to-late 2022. Canadian preferred share ETFs experienced inflows of \$755 million in the year, a significant contrast to 2020 when there were redemptions of \$257 million.

We saw more muted preferred share issuance activity in 2021 compared to prior years, with new issuance from Emera, Great-West Lifeco, Royal Bank, Power Financial, and Canadian Utilities. Four of the six new issues were perpetual preferred shares and we participated in a small position in the Great-West Lifeco 4.5% deal. We also initiated a position in the new Royal Bank 4.2% rate reset preferred shares, which notably had some key differences: a par price of \$1,000 instead of \$25, traded over the counter (OTC), and with a larger minimum trade lot. This is consistent with OFSI having asked banks and insurance companies to phase out retail-sized preferred share issuance, due to the risk for retail investors. There was still meaningfully less new issuance in the market compared to prior years, with \$12.4 billion of Limited Resource Capital Notes (LRCNs) issued by bank and insurance companies alone in 2021, and many non-Financial companies opting for cheaper financing through hybrid bonds and calling their preferred shares.

While we do not think bank and insurance company preferred share issuance will disappear, we do expect this sector will shrink as a percentage of the overall index, where it is currently sitting at 48%, and many potential maturities are due to be called in the sector in 2022.

Rate reset preferred shares rose by 29.5% in the year (index performance), outperforming perpetual preferred shares which were up only 9.2%. The Fund's overweight exposure to rate resets was the primary contributor to outperformance in the year. While floating rate preferred shares were the top performing structural type, rising by 52.9%, we did not have any exposure relative to the Index and that was a minor detractor from performance. Our overweight exposure to the Utility sector contributed to the Fund's outperformance, which was partially offset by an underweight exposure to REITs. We are slowly adding to our exposure in perpetual preferred shares and Financials where we find value.

Looking ahead, we believe that higher interest rates, continued lack of issuance, redemptions and demand for high-yielding products will continue to support the preferred share market in 2022.

### Recent Developments

The S&P/TSX Preferred Share Index was flat in January 2022.

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## Management Discussion of Fund Performance (cont.)

### Related Party Transactions

Leith Wheeler Investment Counsel Ltd. (the “Manager”) is the manager and portfolio advisor of the Fund and is responsible for the Fund’s day-to-day operations. The Fund pays the Manager a management fee as compensation for managing the investment portfolio of the Fund.

At December 31, 2021, the Leith Wheeler Income Advantage Fund and the Leith Wheeler Corporate Advantage Fund owned 589,564 Series A units and 1,677,501 Series A units of the Fund, respectively, which are both under common management. Combined, the holdings represent 34.4% of the Fund.

### Management Fees

The Manager provides the Fund with investment management services, including fund accounting and unitholder record keeping. In return, the Manager receives a management fee based on the net assets of the Fund, calculated on a daily basis. The annualized management fee for the Series B and Series F units of the Fund are 0.90% and 0.70%, respectively. During the year, the Fund paid the Manager \$2,940 for Series B and \$141,654 for Series F (exclusive of GST/HST) of its net assets as management fees. The Fund does not reimburse the Manager for operating costs incurred in administering the Fund. The Manager paid all operating expenses except brokerage commissions, transaction charges and taxes. In respect of Series A units, the unitholder pays the Manager a negotiated management fee outside the Fund.

We do not, directly or indirectly, pay fees, sales commissions or trailing commissions, nor do we provide any non-monetary benefits to registered dealers for distributions of units of the Fund. If a broker charges you a commission or fee, that is a matter between you and the dealer.

## Financial Highlights

### The Fund's Net Assets Attributable to Holders of Redeemable Units per Unit

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

Series A (inception May 22, 2018)	2021	2020	2019	2018	2017
Net assets attributable to holders of redeemable units - per unit, beginning of year <sup>(1) (3)</sup>	\$8.58	\$8.50	\$8.67	\$10.00	n/a
Increase (decrease) from operations:					
Total revenue	0.44	0.37	0.44	0.25	n/a
Total expenses	-	-	-	-	n/a
Realized gains (losses) for the year	0.48	(0.16)	(0.21)	(0.26)	n/a
Unrealized gains (losses) for the year	1.24	0.61	0.11	(1.34)	n/a
Total increase (decrease) from operations <sup>(1)</sup>	2.16	0.82	0.34	(1.35)	n/a
Distributions:					
From income (excluding dividends)	-	-	-	-	n/a
From dividends	(0.41)	(0.37)	(0.41)	(0.22)	n/a
From capital gains	-	-	-	-	n/a
Return of capital	-	-	-	-	n/a
Total Annual Distributions <sup>(2)</sup>	(0.41)	(0.37)	(0.41)	(0.22)	n/a
Net assets attributable to holders of redeemable units - per unit, end of year <sup>(1)</sup>	\$10.29	\$8.58	\$8.50	\$8.67	n/a

Series B (inception May 22, 2018)	2021	2020	2019	2018	2017
Net assets attributable to holders of redeemable units - per unit, beginning of year <sup>(1) (3)</sup>	\$8.39	\$8.47	\$8.66	\$10.00	n/a
Increase (decrease) from operations:					
Total revenue	0.41	0.93	3.43	0.25	n/a
Total expenses	(0.09)	(0.09)	(2.47)	(0.82)	n/a
Realized gains (losses) for the year	0.44	(0.41)	(1.64)	(0.26)	n/a
Unrealized gains (losses) for the year	1.15	1.55	0.89	(1.37)	n/a
Total increase (decrease) from operations <sup>(1)</sup>	1.91	1.98	0.21	(2.20)	n/a
Distributions:					
From income (excluding dividends)	-	-	-	-	n/a
From dividends	(0.35)	(0.45)	(0.35)	(0.18)	n/a
From capital gains	-	-	-	-	n/a
Return of capital	-	-	-	-	n/a
Total Annual Distributions <sup>(2)</sup>	(0.35)	(0.45)	(0.35)	(0.18)	n/a
Net assets attributable to holders of redeemable units - per unit, end of year <sup>(1)</sup>	\$10.02	\$8.39	\$8.47	\$8.66	n/a

# Financial Highlights (cont.)

## The Fund's Net Assets Attributable to Holders of Redeemable Units per Unit (cont.)

Series F (inception May 22, 2018)	2021	2020	2019	2018	2017
Net assets attributable to holders of redeemable units - per unit, beginning of year <sup>(1) (3)</sup>	\$8.22	\$8.37	\$8.56	\$10.00	n/a
Increase (decrease) from operations:					
Total revenue	0.38	0.80	0.33	0.65	n/a
Total expenses	(0.07)	(0.08)	-	-	n/a
Realized gains (losses) for the year	0.41	(0.35)	(0.16)	(0.68)	n/a
Unrealized gains (losses) for the year	1.06	1.33	0.09	(3.49)	n/a
Total increase (decrease) from operations <sup>(1)</sup>	1.78	1.70	0.26	(3.52)	n/a
Distributions:					
From income (excluding dividends)	-	-	-	-	n/a
From dividends	(0.37)	(0.52)	(0.38)	(0.28)	n/a
From capital gains	-	-	-	-	n/a
Return of capital	-	-	-	-	n/a
Total Annual Distributions <sup>(2)</sup>	(0.37)	(0.52)	(0.38)	(0.28)	n/a
Net assets attributable to holders of redeemable units - per unit, end of year <sup>(1)</sup>	\$9.81	\$8.22	\$8.37	\$8.56	n/a

(1) Net assets attributable to holders of redeemable units and distributions are based on the actual number 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.

(2) Distributions are reinvested in additional units of the Fund or paid in cash.

(3) From May 22, 2018, inception date of Series A, B and F units of the Fund.

## Financial Highlights (cont.)

### Ratios and Supplemental Data

Series A (inception May 22, 2018)	2021	2020	2019	2018	2017
Total net assets attributable to holders of redeemable units (\$000s) <sup>(1)</sup>	43,555	39,527	37,501	27,977	n/a
Number of units outstanding (000s) <sup>(1)</sup>	4,234	4,607	4,414	3,228	n/a
Management expense ratio (%) <sup>(2)</sup>	-	-	-	-	n/a
Management expense ratio before waivers or absorptions (%)	0.04	0.06	0.07	0.06	n/a
Trading expense ratio (%) <sup>(3)</sup>	0.04	0.06	0.07	0.10	n/a
Portfolio turnover rate (%) <sup>(4)</sup>	37.13	24.82	30.71	64.62	n/a
Net assets attributable to holders of redeemable units - per unit (\$)	10.29	8.58	8.50	8.67	n/a

Series B (inception May 22, 2018)	2021	2020	2019	2018	2017
Total net assets attributable to holders of redeemable units (\$000s) <sup>(1)</sup>	397	671	69	45	n/a
Number of units outstanding (000s) <sup>(1)</sup>	40	80	8	5	n/a
Management expense ratio (%) <sup>(2)</sup>	0.95	0.95	0.95	0.95	n/a
Management expense ratio before waivers or absorptions (%)	0.99	1.01	1.02	1.01	n/a
Trading expense ratio (%) <sup>(3)</sup>	0.04	0.06	0.07	0.10	n/a
Portfolio turnover rate (%) <sup>(4)</sup>	37.13	24.82	30.71	64.62	n/a
Net assets attributable to holders of redeemable units - per unit (\$)	10.02	8.39	8.47	8.66	n/a

Series F (inception May 22, 2018)	2021	2020	2019	2018	2017
Total net assets attributable to holders of redeemable units (\$000s) <sup>(1)</sup>	23,902	11,635	2,932	1,765	n/a
Number of units outstanding (000s) <sup>(1)</sup>	2,436	1,415	350	206	n/a
Management expense ratio (%) <sup>(2)</sup>	0.79	0.79	0.74	0.74	n/a
Management expense ratio before waivers or absorptions (%)	0.83	0.85	0.81	0.80	n/a
Trading expense ratio (%) <sup>(3)</sup>	0.04	0.06	0.07	0.10	n/a
Portfolio turnover rate (%) <sup>(4)</sup>	37.13	24.82	30.71	64.62	n/a
Net assets attributable to holders of redeemable units - per unit (\$)	9.81	8.22	8.37	8.56	n/a

(1) This information is provided as at December 31 of the year shown; unless noted otherwise.

(2) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of the daily average net asset value during the period.

(3) 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.

(4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser 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 year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

## Past Performance

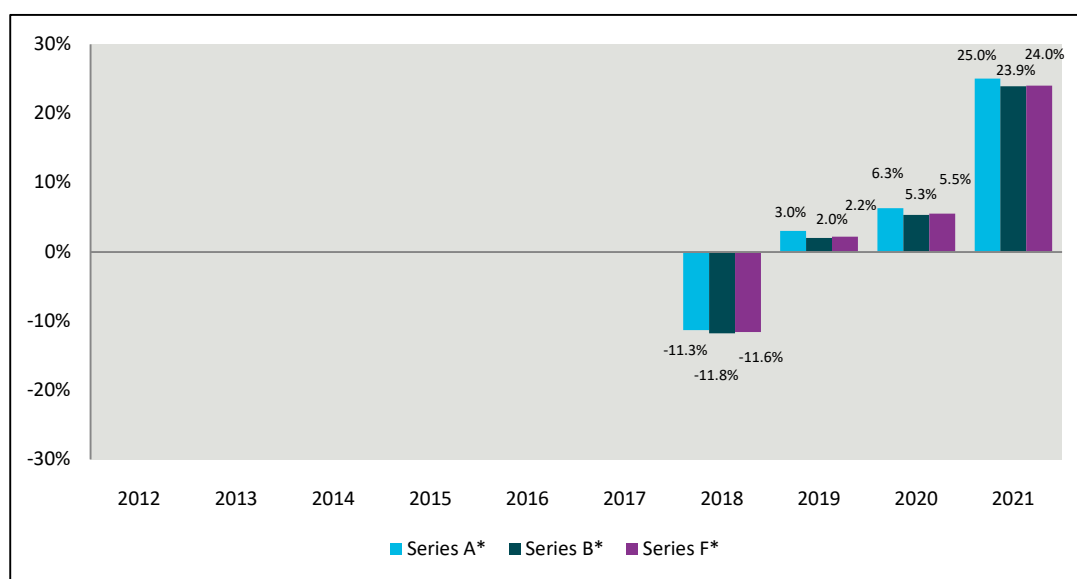
### General

The Fund's performance assumes all distributions made by the Fund in the years shown were reinvested in units of the Fund and is based on net asset value per unit. If you hold the Fund outside a Registered Plan, you will be taxed on these distributions.

The performance information does not take into account sales charges, other charges or taxes that, if applicable, would have reduced returns or performance; but includes management fees and other expenses borne directly by the Fund. Past performance does not necessarily indicate how the Fund may perform in the future.

### Year-by-Year Returns

The following bar chart shows the Fund's historical return, which changes each year and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each year.



\* Series A, Series B and Series F units were created on May 22, 2018. Performance start date is May 25, 2018, which is the date of first unitholder contribution to the Series. Returns from May 25, 2018 to December 31, 2018, not annualized.

## Past Performance (cont.)

### Annual Compound Returns

The following table compares the historical annual compound return of the Fund (before fees for Series A and after fees for Series B and F) with the S&P/TSX Preferred Share Index (CAD), in each case for the year ended December 31, 2021. The S&P/TSX Preferred Share Index is an index which tracks the performance of the Canadian preferred stock market. A discussion of the performance of the Fund as compared to this broad-based index is found in the Results of Operations section of this document.

For the Years ended December 31	1 Year	3 Years	5 Years	10 Years
Fund – Series A *	25.0%	11.0%	n/a	n/a
Benchmark	19.4%	9.5%	n/a	n/a
Fund – Series B *	23.9%	10.0%	n/a	n/a
Benchmark	19.4%	9.5%	n/a	n/a
Fund – Series F *	24.0%	10.2%	n/a	n/a
Benchmark	19.4%	9.5%	n/a	n/a

\* Series A, Series B and Series F units were created on May 22, 2018. Performance start date is May 25, 2018, which is the date of first unitholder contribution to the Series.



## Summary of Investment Portfolio

As at December 31, 2021

### Top 25 Positions

Issuer	% of Net Asset Value
Toronto-Dominion Bank Step Up Preferred Shares, Series E	5.3%
BCE Inc Step Up Preferred Shares, Series M	5.0%
Royal Bank of Canada Step Up Preferred Shares, Series J	4.9%
Royal Bank of Canada 4.2% December 31, 2049	4.4%
TC Energy Corp Step Up Preferred Shares, Series G	4.0%
Bank of Montreal Step Up Preferred Shares, Series D	3.8%
Enbridge Inc Step Up Preferred Shares, Series G	3.7%
Pembina Pipeline Corp Step Up Preferred Shares, Series C	3.4%
Enbridge Inc Step Up Preferred Shares, Series B	3.3%
Brookfield Renew Pow PFD Step Up Preferred Shares, Series C	2.3%
Fortis Inc Step Up Preferred Shares, Series M	2.3%
Canadian Imperial Bank of Commerce Step Up Preferred Shares, Series R	2.2%
Intact Financial Corp Step Up Preferred Shares, Series C	2.1%
AltaGas Ltd Step Up Preferred Shares, Series G	2.1%
Toronto-Dominion Bank Step Up Preferred Shares, Series D	2.1%
AltaGas Ltd Step Up Preferred Shares, Series A	1.9%
Brookfield Renew Pow PFD Step Up Preferred Shares, Series A	1.9%
Emera Inc Step Up Preferred Shares, Series F	1.8%
Enbridge Inc Step Up Preferred Shares, Series E	1.8%
Cash & Other Net Assets	1.8%
Pembina Pipeline Corp Step Up Preferred Shares, Series I	1.8%
CU Inc Straight Preferred Shares, Series A	1.6%
Toronto-Dominion Bank Step Up Preferred Shares, Series I	1.6%
Great-West Lifeco Inc Straight Preferred Shares, Series P	1.5%
Manulife Financial Corp Step Up Preferred Shares, Series I	1.4%

### Portfolio Allocation

Portfolio Breakdown	% of Net Asset Value
Step Up Preferred Shares	85.1%
Straight Preferred Shares	13.1%
Cash & Other Net Assets	1.8%

The Fund held no short positions as at December 31, 2021.

*The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund and a quarterly update is available at [www.leithwheeler.com](http://www.leithwheeler.com).*