High Conviction: Preferred Shares Strategy

OPTIMUM Asset Management

An actively managed credit centric capital appreciation preferred shares strategy.

EXECUTIVE SUMMARY:

The preferred shares market has evolved considerably in the last 10 years. According to our analysis, many investors purchased securities they were not very familiar with and as a result were exposed to risk they did not fully understand. Following a significant drop in interest rates, preferred shares lost considerable value in 2015 and 2016 and have since had a hard time recovering as, for the moment, the demand from their natural buyers (the retail market) has vanished. This phenomenon has created opportunities for this asset class.

OPPORTUNITIES:

Our exposure is concentrated in a small dynamic subset of preferred shares which we believe are trading significantly below fair value either because our analysis points toward a company buy back or because they are trading at a deep discount compared to our dual credit and interest rate model.

INVESTMENT PROCESS:

We begin with a daily quantitative screening of the preferred shares market and search for opportunities with the aid of our quantitative credit analysis tool. Our credit team then conducts an ongoing fundamental credit analysis by also searching for buy back opportunities (Valener and Rona preferred shares were already bought back) followed by a sectoral analysis ensuring portfolio credit risk diversification.

PORTFOLIO:

We predominantly invest in Canadian non-financial preferred shares as we value their scarcity given the quasi inexistence of this type of preferred shares in Europe and US where they are replaced by more expensive hybrids.

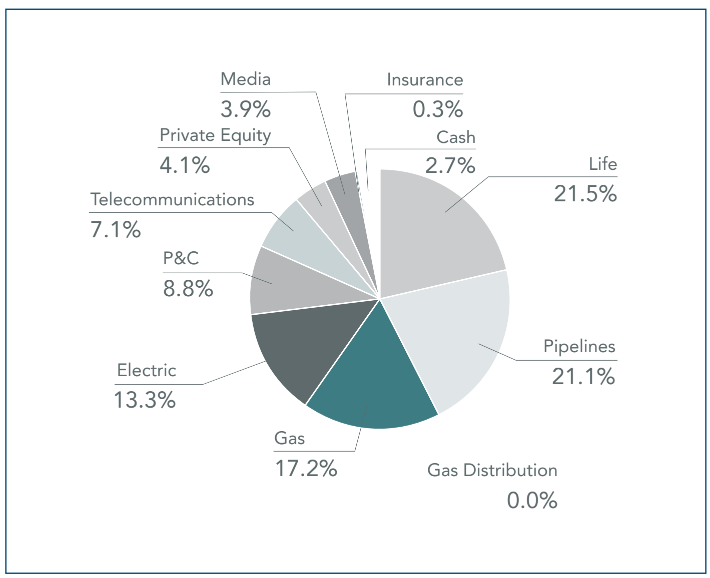
Our strategy is currently as follows:

| Current yield (e.g. cash): 4.77%

| Number of issuers: 16

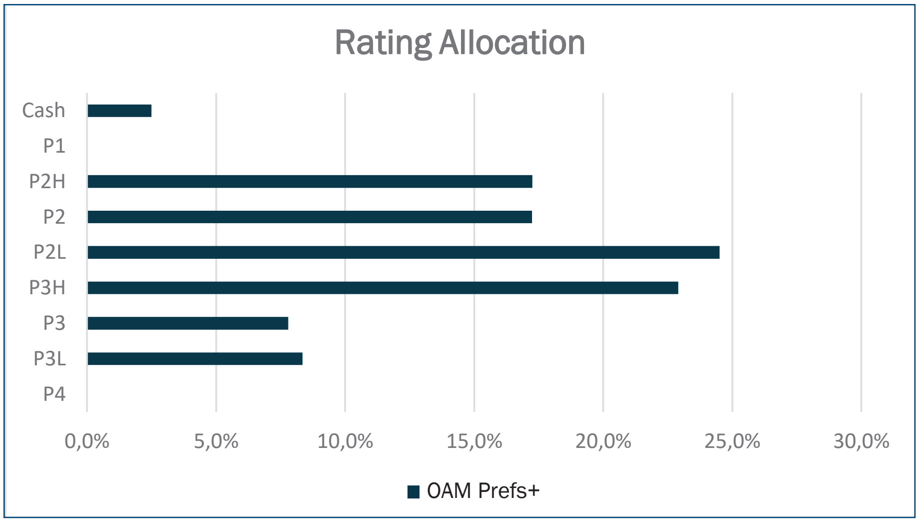
| Top 5 issuers (represent 44% of our portfolio):

- TransCanada Pipeline
- CU Inc
- Fortis Inc
- Great West Life
- BCE Inc



Data: September 2020

PRI Principles for Responsible Investment



Data: September 2020

EXIT STRATEGY:

In a rising interest rate environment, our exit strategy is to wait for the coupon to reset at a higher interest rate (between years 2020 and 2023), at which point we think retail customers will reenter the market looking for investments that provide yield. If interest rates rise significantly, we may even see issuers buying back preferred shares. In the meantime, dividends should provide an interesting carry. In the event of continuing low interest rates, the dislocation we perceive might not resolve itself with a change in buy-side sentiment. We are, however, seeing the supply drying in this asset class since 2019 and we might, in the next few years, see the dislocation resolve itself by a drying up of the supply.

RISKS:

In addition to traditional risks, which includes issuer defaults, this strategy could be negatively affected by persistent low interest rates, mainly negative interest rates which could further weaken dividend payments.

WHO ARE WE?

Combined, our asset management subsidiaries manage $8.2 billion* Canadian dollars globally for an institutional and private wealth clientele. These subsidiaries are held by Optimum Financial Group, which employs 600 employees across Canada, the United States and in France. Our “value-type” approach enables us to offer our clients sophisticated investment strategies, while emphasizing capital preservation and risk management.

* December 31, 2020