



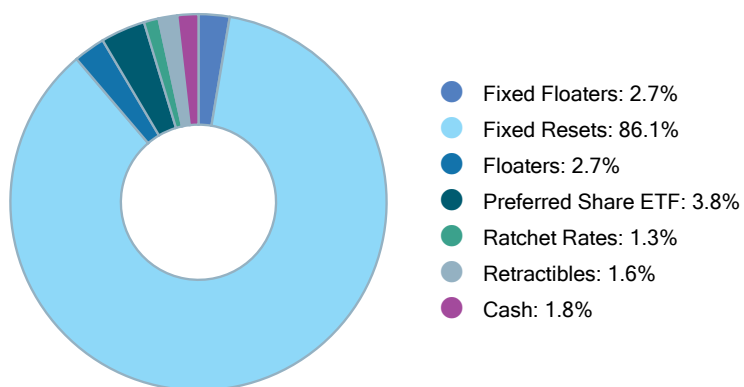
OBJECTIVE

The Nicola Preferred Share Fund's objective is to provide clients of Nicola Wealth with a consistent dividend income and to preserve capital by investing in Canadian preferred shares.

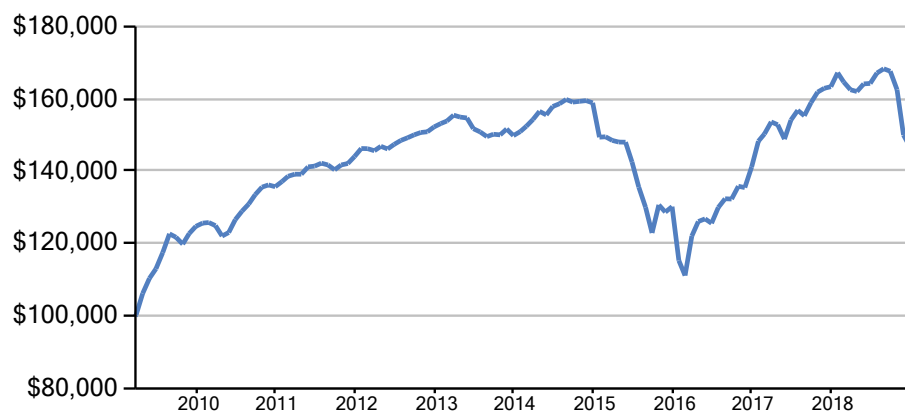
STRATEGY

The fund primarily invests in a diversified portfolio of preferred shares of Canadian issuers. The portfolio is diversified by preferred structure (i.e. retractable, floating, split shares, etc.), credit quality, and reset date.

Asset Mix as of December 31, 2018



\$100,000 Invested Since Inception



Stated in Canadian dollars

Key Statistics

Inception Date	March, 2009
Net Asset Value	\$193.0 Million
NAV Per Unit (Class O)	\$9.10
Number of Assets	144
Net Yield	4.8%
Trailing 12 Month Distribution	4.0%

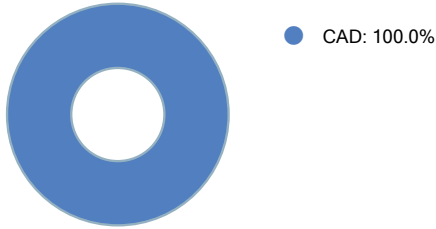
Calendar Year Returns

2018	-10.3%
2017	15.7%
2016	8.4%
2015	-18.0%
2014	6.0%

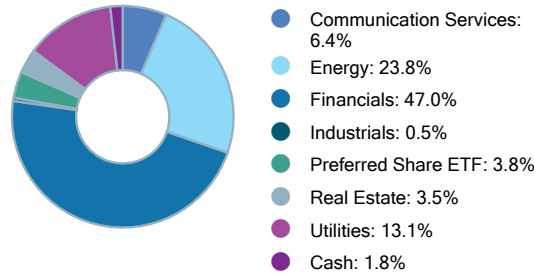
Returns for the period ending December 31, 2018

Year-to-Date	-10.3%
1 Year	-10.3%
3 Year	4.0%
5 Year	-0.4%
10 Year	N/A
Since Inception	4.0%

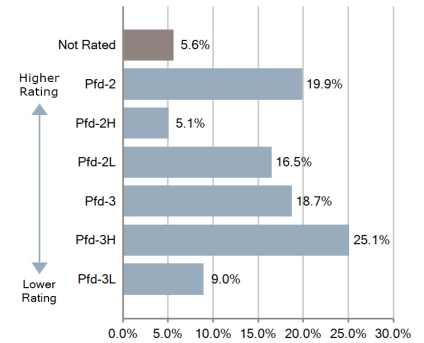
Currency Exposure



Sector Weighting



Credit Rating: % of Fund



Commentary

After a meandering path to slightly higher returns in the first three quarters of the year, preferred shares sold off sharply in sympathy with other risk markets during the fourth quarter as the Nicola Preferred Share fund was down -12.6% for the quarter.

The negative pressure on preferred shares was due to broader concerns for risk-on markets coupled with retail-based exchange traded funds (ETFs) selling pressure. ETFs account for about 10% of assets in the entire universe and on a block basis, there have been days where ETFs have represented 85% of volume. With no one making a bid, selling pressures hit the market unabated. The illiquid nature of the market lends itself to an environment where prices can gap higher and lower, causing large swings in pricing. Given wider credit spreads and the sell-off in equity markets, a weakening of preferred shares was warranted but the severity was overdone relative to the movement of stocks and bonds. In terms of capital structure, preferred shares sit between corporate bonds and common stocks, therefore their returns generally should be more volatile than bonds but less volatile than stocks. The recent correction has seen preferred shares sell off more than stocks.

The sell-off during the quarter was different from 2016 when the 5-year Government of Canada yields flirted with 0.50%; today they are at 1.89%. As a result, many preferred shares dividend coupons will be resetting higher not lower as in 2016.

The correction has unfortunately punished high quality issues with more liquidity. The catalyst for recovery from the previous sell-off started with effectively a private BMO preferred share deal with extremely attractive terms. This time we are already starting to see both real money (long term institutional fixed income investors) and fast money (hedge fund managers) starting to buy into the depressed market. The markets may fall further but there is now some support from institutional buyers which should dampen the fall.

During the quarter, we incrementally sold high reset bank issues, which have held in, and purchased mid resets which have sold off significantly and will continue to do so while opportunities present themselves.

For more information on this fund’s monthly performance, click [here](#).

Past performance is not indicative of future results. All investments contain risk and may gain or lose value. The YTD and 1 year return is a historical simple return. The 3, 5, 10 year and since inception returns are annualized compounded total returns. All returns are net of fund-level fees and expenses, including management fees and performance fees (if applicable). Please refer to the disclosure documents for important disclosure information including terms of redemption and limited liquidity. Nicola Wealth is registered as a Portfolio Manager, Exempt Market Dealer and Investment Fund Manager with the required provincial securities’ commissions. Please speak with a Nicola Wealth advisor to discuss if this investment is right for you. Effective Jan. 1, 2019, the fund changed its name from the NWM Preferred Share Fund.