

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

Lysander-Canso Bond Fund



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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-Canso Bond Fund (the “Fund”) contains financial highlights for the period 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 provide above average, long-term total returns consisting principally of interest income by investing primarily in high-quality Canadian dollar denominated fixed income securities of Canadian and foreign issuers.

Investment Strategies

The Fund’s portfolio manager is Canso Investment Counsel Ltd. (“Portfolio Manager” or “Canso”). The Fund’s portfolio will primarily be invested in Canadian dollar denominated fixed income securities of Canadian and foreign issues. It also may invest in debt securities convertible into common stock, and fixed income securities of governments, government agencies,

supranational agencies, companies, trusts and limited partnerships. The Fund will not be leveraged. The Fund may invest up to 60% of its assets at the time of purchase 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.

Results of Operations

During the period Canso employed its bottom-up process to buy and sell securities for the Fund. Roughly 68% of the Fund was invested in floating rate notes at the beginning of the period. The prices of these securities were largely unaffected by increases in interest rates, versus fixed rate bonds.

The Fund had positive returns for the period of 0.09% for Series A and 0.67% for Series F.

This positioning and performance is consistent with the Fund’s fundamental investment objective and strategies. The net assets of the Fund decreased to approximately \$58.9 million at December 31, 2018 from \$61.5 million at the end of the prior year. This was mainly due to net redemptions of over \$2.4 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.

Lysander-Canso Bond Fund

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

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

Recent Developments

Equity markets struggled with higher interest rates in the first quarter as the US Federal Reserve raised rates citing the continued strength in the labour market. The Bank of Canada followed suit with its own hike in January. Bond market returns were negative as a result early in the quarter, but yields settled back somewhat in March. Corporate bonds modestly underperformed Canada bonds as spreads widened.

The upward trajectory in yields reversed course in June as Canada, the EU and Mexico retaliated against the US steel and aluminum tariffs imposed by the Trump administration. Markets feared a global trade war with US tariffs on Chinese goods (and vice versa) set to begin in July. The Bank of Canada remained on hold in the quarter while the Federal Reserve continued to push US administered rates higher. In this environment, long Government bonds outperformed and credit spreads widened slightly but the higher yield of corporates allowed them to match the return of the Canada index.

Interest rates continued to creep higher in the third quarter even though the drama with the NAFTA negotiations moderated their increase. The Canadian Government seemed immensely relieved to have a tentative deal on the new NAFTA, called USMCA. This agreement was reached right at the US imposed deadline. Meanwhile, the US Federal Reserve raised rates and remained open about their desire to push rates back to “normal” levels. This makes sense, given that the US economy is booming from tax cuts, Government spending, and the fact that interest rates are still low versus inflation. Third quarter bond returns were mostly negative. Corporate bonds fared better as credit spreads tightened and they have an overall shorter duration than the broader market index.

A nasty confluence of events pushed equity markets sharply lower in the fourth quarter. The US Federal Reserve continued to raise administered interest rates, which is broadly negative for asset prices. There are also signs of an economic slowdown, based on surveys of manufacturing company executives. Trade tensions between the US and China contributed to this. Finally, equity markets seemed to come to the realization that many stocks, especially in the technology sector, were expensive. Falling equity markets caused investors to shift into Government bonds in the quarter. This drove their yields down and led to Government of Canada bonds being the strongest performers in the Canadian bond market.

The very strong performance of Canada bonds in the fourth quarter reversed their year-to-date trend and caused them to be

the best performers for the year. Wider credit spreads in the quarter caused Corporate bonds to underperform the broader bond market for the year. Lower quality bonds were the worst performers, with many high yield issues falling in price and even investment grade BBB rated bonds seeing somewhat higher yields.

The Fund continued to purchase high quality floating rate bonds with new issue purchases of AAA rated covered bonds issued by TD Bank and Bank of Montreal, as well as a 5-year new issue from Lloyds Bank PLC. The Fund’s holdings of bonds with under 1 year till maturity and floating rate notes was approximately 65% at the end of the year. Canso believes there is significant price risk in longer maturity bonds from the prospect of rising interest rates. At year-end the Fund’s sensitivity to interest rate changes, as measured by its effective duration, was only 1.4 years.

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 simplified prospectus.

The Fund paid \$480,869 (including HST) in management fees to the Manager for the year ended December 31, 2018 (December 31, 2017 - \$545,344).

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 is included in the management fee.

The Manager paid \$220,299 (including HST) to the Portfolio Manager for the year ended December 31, 2018 (December 31, 2017 - \$242,222).

Lysander-Canso Bond Fund

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

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-Canso Bond 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	31-Dec-2014
Net assets per unit¹					
Net assets, beginning of year	\$ 10.48	\$ 10.49	\$ 10.47	\$ 10.61	\$ 10.28
Operations:					
Total revenue	0.31	0.27	0.25	0.31	0.39
Total expenses	(0.15)	(0.15)	(0.15)	(0.15)	(0.15)
Realized gains (losses)	(0.01)	(0.02)	(0.03)	0.13	-
Unrealized gains (losses)	(0.14)	0.01	0.03	(0.19)	0.27
Total increase (decrease) from operations²	\$ 0.01	\$ 0.11	\$ 0.10	\$ 0.10	\$ 0.51
Distributions:					
From income (excluding dividends)	\$ (0.13)	\$ (0.09)	\$ (0.08)	\$ (0.16)	\$ (0.23)
From capital gains	-	-	-	(0.08)	-
Total distributions^{2 3}	\$ (0.13)	\$ (0.09)	\$ (0.08)	\$ (0.24)	\$ (0.23)
Net assets, end of year^{2 3}	\$ 10.36	\$ 10.48	\$ 10.49	\$ 10.47	\$ 10.61
Ratios and supplemental data					
Net asset value ⁴	\$ 6,305,982	\$ 8,817,734	\$ 17,476,019	\$ 19,612,434	\$ 19,042,876
Units outstanding	608,873	841,028	1,666,318	1,873,109	1,794,229
Management expense ratio ⁵	% 1.43	% 1.43	% 1.40	% 1.42	% 1.46
Management expense ratio before waivers or absorption	1.43	1.43	1.40	1.42	1.46
Portfolio turnover rate ⁶	35.80	24.4	29	73	48
Trading expense ratio ⁷	-	-	-	-	-
Net asset value per unit, end of year	\$ 10.36	\$ 10.48	\$ 10.49	\$ 10.47	\$ 10.61

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 or reinvested in additional units, or both.
- 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-Canso Bond 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	31-Dec-2014
Net assets per unit¹					
Net assets, beginning of year	\$ 10.32	\$ 10.37	\$ 10.39	\$ 10.52	\$ 10.20
Operations:					
Total revenue	0.31	0.27	0.25	0.30	0.39
Total expenses	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)
Realized gains (losses)	(0.01)	(0.02)	(0.03)	0.12	-
Unrealized gains (losses)	(0.14)	(0.01)	0.02	(0.23)	0.28
Total increase (decrease) from operations²	\$ 0.07	\$ 0.15	\$ 0.15	\$ 0.10	\$ 0.58
Distributions:					
From income (excluding dividends)	\$ (0.23)	\$ (0.18)	\$ (0.17)	\$ (0.20)	\$ (0.31)
From capital gains	-	-	-	(0.10)	-
Total distributions^{2 3}	\$ (0.23)	\$ (0.18)	\$ (0.17)	\$ (0.30)	\$ (0.31)
Net assets, end of year^{2 3}	\$ 10.16	\$ 10.32	\$ 10.37	\$ 10.39	\$ 10.52
Ratios and supplemental data					
Net asset value ⁴	\$ 52,683,065	\$ 52,767,933	\$ 69,454,371	\$ 60,034,131	\$ 43,882,710
Units outstanding	5,183,054	5,113,564	6,697,299	5,776,921	4,170,305
Management expense ratio ⁵	% 0.85	% 0.86	% 0.85	% 0.85	% 0.89
Management expense ratio before waivers or absorption	0.85	0.86	0.85	0.85	0.89
Portfolio turnover rate ⁶	35.8	24.4	29	73	48
Trading expense ratio ⁷	-	-	-	-	-
Net asset value per unit, end of year	\$ 10.16	\$ 10.32	\$ 10.37	\$ 10.39	\$ 10.52

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.
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- 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-Canso Bond Fund

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

Management Fees

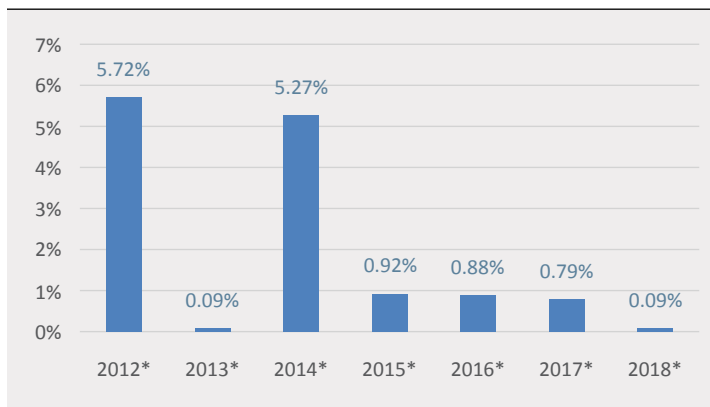
The Manager provides or arranges the provision of all general management and administrative services required by the Fund, and as described in the section “Related Party Transactions” above.

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 1.15% per annum for Series A units and 0.65% 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 43.5% of the management fee of Series A units.

Year-by-Year Returns

Series A

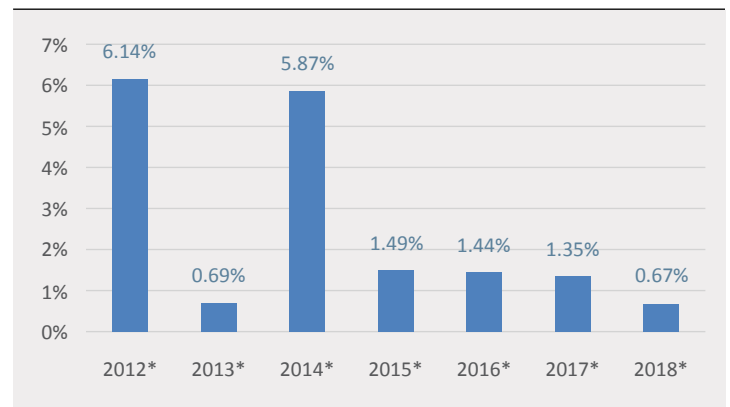


Past Performance

The commencement date of being distributed under a prospectus for Series A and F was December 28, 2011. Accordingly, returns are shown for the relevant years 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-Canso Bond 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 FTSE TMX Canada Universe Bond Index (the "Index"). The Index is designed to be a broad measure of the Canadian investment-grade fixed income market. 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		5 Year ²		Since Inception ³
Annual Compound Return								
Series A ¹	%	0.09	%	0.59	%	1.58	%	1.88
Series F ¹		0.67		1.16		2.15		2.44
FTSE TMX Canada Universe Bond Index ⁴	%	1.41	%	1.86	%	3.54	%	2.91

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 December 28, 2011 to December 31, 2018. Since inception returns are annualized.

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Lysander-Canso Bond 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		
GE Capital Canada	%	8.2	Canadian Fixed Income	%	84.5
Royal Bank of Canada		7.9	Cash and cash equivalents		0.5
Bank of Montreal		7.8	Foreign Fixed Income		14.5
Toronto Dominion Bank		7.2	Other Assets less Liabilities		0.5
Enbridge Inc.		5.1	Total	%	100.0
Manufacturers Life Insurance		5.1	Sector		
Kraft Canada Inc.		4.5	Cash and Cash Equivalents	%	0.5
Lloyds Banking Group PLC		4.4	Communication		5.1
ICICI Bank NHA MBS (98001256)		4.0	Consumer Staples		5.0
Heathrow Funding Limited		3.9	Energy		5.6
Cogeco Cable Inc.		3.1	Federal		13.5
Met Life Global Funding		3.1	Financials		50.8
407 International Inc.		3.1	Industrials		3.3
MCAP Service NHA MBS (98001833)		2.7	Infrastructure		9.2
VW Credit Canada Inc.		2.3	Other Assets less Liabilities		0.5
SNC Lavalin		2.1	Provincial		2.7
N.B. Highway		2.1	Real Estate		3.8
Shaw Communications Inc.		2.0	Total	%	100.0
WTH Car Rental ULC (AVIS)		1.9			
I.G Investment NHA MBS (98001006)		1.7			
Scotia Plaza (Scotiabank Leases)		1.6			
Caisse Francaise de Financement		1.6			
Magna International Inc.		1.2			
PSPIB-RE Summit Inc.		1.2			
Honda Canada Finance Inc		1.1			
Total	%	88.9			



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