

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

Canso Credit Income 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 Canso Credit Income Fund (the “Fund”) contains financial highlights for the year ended December 31, 2018 but does not contain the complete financial statements of the investment 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 (i) maximize total returns for unitholders while reducing risk and (ii) provide unitholders with monthly cash distributions by taking long and short positions in a portfolio of primarily of corporate bonds and other income securities.

Investment Strategies

The Fund is managed by Canso Investment Counsel Ltd. (“Canso” or “Portfolio Manager”). The Fund's portfolio holdings are not restricted by credit ratings. In addition, Canso engages in short selling of securities primarily to hedge credit and interest rate risk. This allows the Fund's portfolio to be positioned more

defensively in both rising interest rate environments and credit downturns.

Risks

The risks of this Fund remain as discussed in the Fund’s most recently filed public disclosure documents.

Results of Operations

From the inception date of the Fund, Canso has positioned the Fund to isolate and take advantage of wide credit spreads, primarily by shorting Government of Canada bonds against long corporate bond positions. The net effect of these long/short positions is to help insulate the Fund against an increase in interest rates, which Canso expects over the medium term, and to exploit attractive credit spreads of the corporate bond positions.

The Fund had returns for the year of -4.07% for Class A units and -3.61% for Class F units. At the end of the year, the Fund held approximately 47.9% of its net asset value in short positions. These primarily consisted of short positions in Government of Canada bonds.

The net assets of the Fund were \$156.0 million at December 31, 2018 compared to \$173.1 million at the beginning of the year. This was partly due to cash distributions of approximately \$7.2 million and net redemptions of approximately \$3.5 million.

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

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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. In Canso's view 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.

Increasingly, Canso believes the additional yield offered on lower quality high-yield bonds is generally not compensating investors adequately for the risk associated with the issuers. In 2018, the Fund continued to conservatively position itself while taking advantage of market opportunities. In early 2018, Canso took a sizeable position in a 5-year Bank of Montreal ("BMO") covered bond while selling shorter dated bank floating rate deposit notes. Covered bonds will not be subject to Canadian bail-in legislation, whereas bank deposit notes will all eventually be subject to bail-in legislation as legacy issues mature and are called. Canso also purchased in the Fund's portfolio, a position in a Lloyds Bank PLC CAD\$ new issue 5-year floating rate bond midway through the year. Lloyds' credit quality benefits from regulatory changes under the UK's ringfencing regime designed to separate banks' riskier capital markets businesses from more traditional banking operations. The bonds are not subject to Canadian bail-in legislation and Canso believes the credit spread more than compensates for the risk of this highly rated institution.

Throughout the year, Canso opportunistically added to the Fund's portfolio existing positions of fallen angels such as BB rated Teva Pharmaceuticals. The downgrade of General Electric to BBB+ late in the year presented another buying opportunity, as negative market sentiment combined with lacklustre results pushed spreads out to extremely attractive levels. The market turmoil heading into the end of the calendar year saw spreads move out significantly across the credit spectrum, but particularly in high yield. Taking advantage of these market movements, the Fund re-established a position in mid-term Bombardier bonds. Canso also believes there is significant price risk in longer maturity bonds from the prospect of rising interest rates. This risk has been moderated by concentrating the portfolio in bonds with short maturities and with floating rate notes and by selling Government bonds short to offset interest rate risk in certain corporate bond holdings.

At the of the year, the Fund held long positions that were approximately 147.9% of the net asset value of the Fund with short positions of approximately 47.9%.

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").

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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 classes, 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 Fund's most recently filed Annual Information Form.

The Fund paid \$1,279,386 (excluding HST) in management fees to the Manager for the year ended December 31, 2018 (December 31, 2017 - \$1,453,816).

The Manager is also entitled to receive a performance fee from the Fund (the "Performance Fee") under certain conditions as described in the Fund's most recently filed Annual Information Form. For the year ended December 31, 2018, the Performance Fee accrued payable by the Fund was \$12,586 (excluding HST) (December 31, 2017 - \$1,805,427).

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 will also pay to Canso a percentage of any Performance Fee that the Manager receives from the Fund, such percentage to be agreed upon between the Manager and the Portfolio Manager from time to time.

The Manager paid \$607,116 (excluding HST) to the Portfolio Manager for the year ended December 31, 2018 (December 31, 2017 - \$2,122,788) including performance fees, if applicable.

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.

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Financial Highlights

Class A

Year ended	31-Dec-18	31-Dec-2017	31-Dec-2016	31-Dec-2015	31-Dec-2014
Net assets per unit¹					
Net assets, beginning of year	\$ 11.65	\$ 11.32	\$ 10.75	\$ 11.43	\$ 10.71
Operations:					
Total revenue	0.49	0.78	0.76	0.26	-
Total expenses	(0.30)	(0.41)	(0.26)	(0.11)	(0.12)
Realized gains (losses)	0.21	0.21	(0.46)	4.66	0.15
Unrealized gains (losses)	(0.84)	0.21	0.95	(5.00)	1.18
Total increase (decrease) from operations²	\$ (0.44)	\$ 0.79	\$ 0.99	\$ (0.19)	\$ 1.21
Distributions:					
From income (excluding dividends)	\$ (0.11)	\$ (0.52)	\$ (0.48)	\$ -	\$ -
From dividends	(0.03)	(0.02)	-	-	-
From capital gains	-	-	-	(3.55)	-
From return of capital	(0.36)	-	(0.02)	-	(0.50)
Total distributions^{2 3}	\$ (0.50)	\$ (0.54)	\$ (0.50)	\$ (3.55)	\$ (0.50)
Net assets, end of year^{2 3}	\$ 10.70	\$ 11.65	\$ 11.32	\$ 10.75	\$ 11.43

Ratios and supplemental data					
Net asset value ⁴ (thousands)	\$ 138,957	\$ 153,038	\$ 194,815	\$ 212,656	\$ 223,935
Units outstanding	12,986,466	13,139,530	17,208,747	19,783,017	19,586,958
Management expense ratio ⁵	% 1.50	% 2.73	% 2.33	% 1.77	% 3.18
Portfolio turnover rate ⁶	34.94	43.11	31.33	128.59	5.42
Trading expense ratio ⁷	0.02	0.01	0.03	-	-
Net asset value per unit, end of year	10.70	11.65	11.32	10.75	11.43
Closing Market price per unit ⁴	\$ 11.16	\$ 11.32	\$ 10.86	\$ 10.50	\$ 12.05

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. A portion of the distributions in 2015 and 2017 were paid in cash (\$0.50/unit) and the remainder was paid as a special non-cash distribution.
- This information is provided at the end of the period shown.
- In 2014 the management expense ratio is based on total expenses of both the Fund and Canso Credit Trust (excluding commissions and other portfolio transaction costs but including initial issuance costs) for the stated period and is expressed as an annualized percentage of monthly average net asset value 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.

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Class F

Year ended	31-Dec-18	31-Dec-2017	31-Dec-2016	31-Dec-2015	31-Dec-2014
Net assets per unit¹					
Net assets, beginning of year	\$ 12.55	\$ 12.14	\$ 11.47	\$ 12.10	\$ 11.27
Operations:					
Total revenue	0.53	0.85	0.82	0.27	-
Total expenses	(0.28)	(0.41)	(0.26)	(0.07)	(0.08)
Realized gains (losses)	0.23	0.20	(0.49)	5.01	0.16
Unrealized gains (losses)	(0.88)	0.27	0.97	(5.34)	1.29
Total increase (decrease) from operations²	\$ (0.40)	\$ 0.91	\$ 1.04	\$ (0.13)	\$ 1.37
Distributions:					
From income (excluding dividends)	\$ (0.1)	\$ (0.53)	\$ (0.43)	\$ -	\$ -
From dividends	(0.04)	(0.03)	-	-	-
From capital gains		-	-	(3.95)	-
From return of capital	(0.36)	-	(0.07)	-	(0.50)
Total distributions^{2 3}	\$ (0.50)	\$ (0.56)	\$ (0.50)	\$ (3.95)	\$ (0.50)
Net assets, end of year^{2 3}	\$ 12.58	\$ 12.55	\$ 12.14	\$ 11.47	\$ 12.10
Ratios and supplemental data					
Net asset value ⁴ (thousands)	\$ 17,052	\$ 20,160	\$ 21,279	\$ 28,009	\$ 32,630
Units outstanding	1,467,453	1,606,525	1,753,184	2,442,940	2,696,472
Management expense ratio ⁵	% 1.14	% 2.51	% 2.11	% 1.33	% 2.73
Portfolio turnover rate ⁶	34.94	43.11	31.33	128.59	5.42
Trading expense ratio ⁷	0.02	0.01	0.03	-	-
Net asset value per unit, end of year	\$ 11.62	\$ 12.55	\$ 12.14	\$ 11.47	\$ 12.10

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.
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- Distributions were paid in cash. A portion of the distributions in 2015 and 2017 were paid in cash (\$0.50/unit) and the remainder was paid as a special non-cash distribution.
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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.

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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 Class, calculated daily and payable monthly. The Fund pays a management fee of 0.75% per annum for Class A and Class F units.

Service fees or trailing commissions ("Service Amount") are calculated and paid after the end of each calendar quarter, equal to 0.40% per annum of the net asset value attributable to the Class A Units of the Fund. The Manager paid the Service Amount to brokers based on the number of Class A Units of the Fund held by clients of such brokers at the end of the relevant quarter.

Year-by-Year Returns

Class A



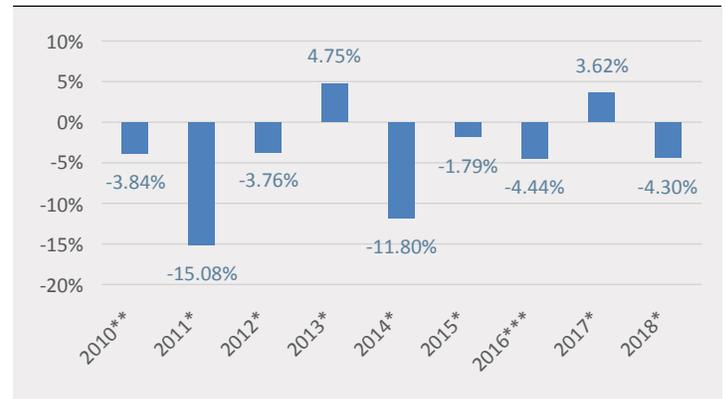
Class F



Long Portfolio



Short Portfolio



* For the period January 1 to December 31, ** For the period July 16 to December 31, *** Restated performance for short portfolio for January 1 to December 31, **** Restated performance for January 1 to December 31

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Annual Compound Returns

The following table shows the Fund's annual compound return for each period indicated, compared with the FTSE TMX Canada All Corporate Bond Index (the "Index"). The Index is divided into sub-indices based on credit rating: a combined AAA/AA sector, a single A sector, and a BBB sector. 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								
Class A ¹	%	(4.07)	%	4.37	%	4.50	%	6.39
Class F ¹		(3.61)		4.67		4.87		6.77
Long Portfolio ¹		(0.20)		5.90		6.30		7.50
Short Portfolio ¹		(4.30)		(1.80)		(3.90)		(4.50)
FTSE TMX Canada All Corporate Bond Index ⁴	%	1.10	%	2.73	%	3.68	%	4.33

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 July 16, 2010 to December 31, 2018. Since inception returns are annualized.

⁴ FTSE TMX Global Debt Capital Markets. Copyright © FTSE TMX Global Debt Capital Markets. All rights reserved. FTSE TMX Global Debt Capital Markets Inc ("FTDCM"), FTSE International Limited ("FTSE"), the London Stock Exchange Group companies (the "Exchange") or TSX INC. ("TSX" and together with FTDCM, FTSE and the Exchange, the "Licensor Parties"). The Licensor Parties make no warranty or representation whatsoever, expressly or impliedly, either as to the results to be obtained from the use of the FTSE TMX Canada Indices ("the Indices") and/or the figure at which the said Indices stand at any particular time on any particular day or otherwise. The Indices are compiled and calculated by FTDCM and all copyright in the Indices values and constituent lists vests in FTDCM. The Licensor Parties shall not be liable (whether in negligence or otherwise) to any person for any error in the Indices and the Licensor Parties shall not be under any obligation to advise any person of any error therein.

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Summary of Investment Portfolio

		% of NAV			% of NAV
Top 25 Issuers			Asset Mix		
Long positions:			Canadian Bonds - Corporate	%	93.1
Teck Resources Ltd (Debt)	%	10.4	Foreign Bonds - Corporate		28.2
Toronto-Dominion Bank (Debt)		9.9	Canadian Equities		20.8
Bank Of Montreal (Debt)		8.7	Foreign Equities		2.4
Royal Bank Of Canada (Debt)		8.6	Canadian Equities - Short		(4.7)
Shaw Communications Inc (Debt)		8.4	Canadian Government Debt - Short		(31.9)
Strait Crossing Development (Debt)		7.0	Foreign Government Debt - Short		(11.3)
AT&T Inc (Debt)		6.5	Cash and Cash Equivalents		3.4
Enbridge Inc (Debt)		6.5	Total	%	100.0
General Electric Co (Debt)		5.5			
Lloyds Bank Plc (Debt)		4.9			
Navient Corporation (Debt)		3.5			
Pembina Pipeline Corp (Debt)		3.5			
BCE Inc (Equity)		3.4			
Cash And Cash Equivalents		3.4			
Xplornet Communications Inc (Equity)		3.4			
Teva Pharmaceutical Finance NE (Debt)		3.3			
Bank Of Nova Scotia (Equity)		3.2			
Metropolitan Life Global Funding I (Debt)		3.0			
Postmedia Network Inc (Debt)		2.9			
Yellow Pages Limited (Equity)		2.9			
Honda Canada Finance Inc (Debt)		2.8			
Bank Of Nova Scotia (Debt)		2.6			
Short positions:					
Genworth MI Canada Inc (Equity)		(4.7)			
U S Treasury Bond (Debt)		(11.3)			
Government Of Canada (Debt)		(31.9)			
Total	%	66.4			
Total Portfolio Long Positions	%	147.9			
Total Portfolio Short Positions		(47.9)			



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