

Annual Management Report of Fund Performance

As at December 31, 2019

Lysander-Canso U.S. Credit 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 U.S. Credit Fund (the “Fund”) contains financial highlights for the year ended December 31, 2019 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, 2019. 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, 3080 Yonge St., Suite 3037, Toronto, Ontario, M4N 3N1, 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 investment Fund’s proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Investment objective

The Fund’s objective is to achieve long term capital growth of returns consisting of income and some capital gains primarily through investments in U.S. debt and money market securities either denominated in U.S. dollars or hedged to U.S. dollars using forward currency contracts.

Investment Strategies

The Fund’s portfolio manager is Canso Investment Counsel Ltd. (“Portfolio Manager” or “Canso”), a company under common control as the Manager. The Fund’s portfolio positions will primarily be invested in fixed income securities, including those

of foreign issues. The Fund will not be leveraged. More details are contained in the Fund’s simplified prospectus.

During the year Canso employed its bottom-up process to buy and sell securities for the Fund.

Unless otherwise noted, all dollar amounts and returns in this document are expressed in USD.

Risks

The risks of this Fund remain as discussed in the Fund’s most recent simplified prospectus.

Results of Operations

The Fund had returns for the year of 7.92% for Series A and 8.53% for Series F.

This positioning and performance is consistent with the Fund’s fundamental investment objective and strategies. The net assets of the Fund increased to over \$36.2 million at December 31, 2019 from \$28.1 million at the beginning of the year. There were net subscriptions of \$5.8 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.

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

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Recent Developments

Markets almost never behave the way most people expect. 2019 was no exception. The year started off coming off a tough final quarter of 2018 and the overall mood was negative. The US Federal Reserve appeared to be in a tightening mode that was going to last a long time. This was weighing on markets in the early part of the year.

In what appeared to be at least partially a response to severe criticism, the US Federal Reserve started to actually cut rates starting in July 2019. This caught the market by surprise and propelled a strong equity rally. Clearly, it was not the magnitude of the rate cuts that improved things, it was the message that US Federal Reserve was not going to be the one that slowed things down, especially in an election year. US equity indices ended up very strongly for the year, led by the tech-heavy NASDAQ.

The bond market moved somewhat at odds with this as yields moved down in the earlier part of the year to levels normally associated with a very weak economy. This caused bond returns to be very strong with much of their return coming from positive price changes on lower yields.

Most bond markets reversed course in the fourth quarter of 2019 and gave up some of the earlier year-to-date gains. This was driven by strong equity markets and a US Federal Reserve indicating there would not likely be any further rate cuts through the election year of 2020. Markets also looked to sustained economic expansion, labour market strength, and contained inflation in the coming year.

The Bank of Canada kept their administered rates steady in the year as the economy was reasonably strong and the Bank seemed unwilling to further fuel Canada's strong housing market. Credit spreads narrowed and corporate bonds outperformed their Government of Canada counterparts.

Towards the end of the year, Canadian and US government bond yields moved higher as the prospect of a trade deal between the US and China looked imminent. This is expected to reduce tariffs and boost Chinese purchases of American farm, energy and manufactured goods and address disputes over intellectual property.

Canso continues to have concerns about overall market valuations in both equities and bonds and believes that caution is warranted, even though current trends may continue for some time.

The largest purchase in the year was a 5.3% position in a new B rated issue of Maxar Technologies Inc, a leading satellite manufacturer and imagery provider that had struggled to

maintain investor confidence. The Fund exited its positions in bonds of Teva and Bombardier, both below investment grade issuers, as high yield spreads tightened in the year. Additionally, Yellow Pages paid down the remaining balance of their senior secured notes outstanding. The Fund's weight in high yield issues remained below 25%.

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 USD \$283,312 (including HST) in management fees to the Manager for the year ended December 31, 2019 (December 31, 2018 - USD \$265,663).

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 are included in the management fee.

The Manager paid CAD \$178,443 (including HST) to the Portfolio Manager for the year ended December 31, 2019 (December 31, 2018 - CAD \$163,500).

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

Series A

Year ended	31-Dec-2019 (USD)	31-Dec-2018 (USD)	31-Dec-2017 (USD)	31-Dec-2016 (USD)	31-Dec-2015 (USD)
Net assets per unit¹					
Net assets, beginning of year	\$ 9.40	\$ 9.78	\$ 9.59	\$ 8.95	\$ 10.00
Operations:					
Total revenue	0.37	0.32	0.36	0.49	0.43
Total expenses	(0.15)	(0.15)	(0.16)	(0.15)	(0.16)
Realized gains (losses)	(0.04)	0.06	0.09	(0.42)	0.20
Unrealized gains (losses)	0.54	(0.42)	0.08	0.91	(0.98)
Total increase (decrease) from operations²	\$ 0.72	\$ (0.19)	\$ 0.36	\$ 0.83	\$ (0.51)
Distributions:					
From income (excluding dividends)	\$ (0.27)	\$ (0.22)	\$ (0.18)	\$ (0.21)	\$ (0.31)
From capital gains	-	-	-	-	(0.12)
Total distributions^{2 3}	\$ (0.27)	\$ (0.22)	\$ (0.18)	\$ (0.21)	\$ (0.43)
Net assets, end of year^{2 3}	\$ 9.88	\$ 9.40	\$ 9.78	\$ 9.59	\$ 8.95
Ratios and supplemental data					
Net asset value ⁴	\$ 3,683,051	\$ 2,526,963	\$ 2,821,663	\$ 2,487,986	\$ 3,102,035
Units outstanding	372,651	268,691	288,432	259,447	346,465
Management expense ratio ⁵	% 1.56	% 1.51	% 1.66	% 1.70	% 1.71
Management expense ratio before waivers or absorption	1.56	1.51	1.66	1.72	1.75
Portfolio turnover rate ⁶	44.97	63.67	53	69	46
Trading expense ratio ⁷	-	-	-	-	-
Net asset value per unit, end of year	\$ 9.88	\$ 9.40	\$ 9.78	\$ 9.59	\$ 8.95

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.

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Series F

Year ended	31-Dec-2019 (USD)	31-Dec-2018 (USD)	31-Dec-2017 (USD)	31-Dec-2016 (USD)	31-Dec-2015 (USD)
Net assets per unit¹					
Net assets, beginning of year	\$ 9.33	\$ 9.66	\$ 9.47	\$ 8.99	\$ 10.00
Operations:					
Total revenue	0.37	0.32	0.35	0.49	0.43
Total expenses	(0.10)	(0.09)	(0.11)	(0.11)	(0.11)
Realized gains (losses)	(0.03)	0.06	0.09	(0.37)	0.19
Unrealized gains (losses)	0.54	(0.41)	0.06	0.81	(0.95)
Total increase (decrease) from operations²	\$ 0.78	\$ (0.12)	\$ 0.39	\$ 0.82	\$ (0.44)
Distributions:					
From income (excluding dividends)	\$ (0.27)	\$ (0.22)	\$ (0.24)	\$ (0.42)	\$ (0.29)
From capital gains	-	-	-	-	(0.12)
Total distributions^{2 3}	\$ (0.27)	\$ (0.22)	\$ (0.24)	\$ (0.42)	\$ (0.41)
Net assets, end of year^{2 3}	\$ 9.85	\$ 9.33	\$ 9.66	\$ 9.47	\$ 8.99

Ratios and supplemental data					
Net asset value ⁴	\$ 32,612,431	\$ 25,642,093	\$ 25,484,068	\$ 13,420,052	\$ 8,901,735
Units outstanding	3,311,921	2,749,678	2,637,839	1,416,951	989,684
Management expense ratio ⁵	% 1.00	% 0.97	% 1.09	% 1.13	% 1.15
Management expense ratio before waivers or absorption	1.00	0.97	1.09	1.15	1.17
Portfolio turnover rate ⁶	44.97	63.67	53	69	46
Trading expense ratio ⁷	-	-	-	-	-
Net asset value per unit, end of year	\$ 9.85	\$ 9.33	\$ 9.66	\$ 9.47	\$ 8.99

Notes

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- 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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Management Fees

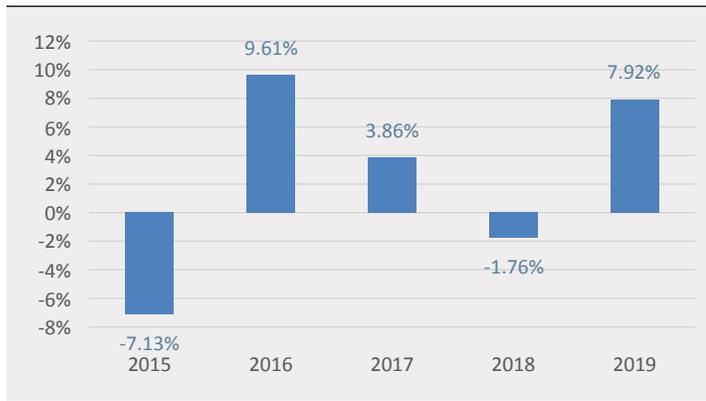
The Manager provides or arranges the provision of all general management and administrative services required by the Fund, and as described in the section “Related Party Transactions” above.

In consideration for such services, the Manager receives a management fee, based on the net asset value of each Series, calculated daily and payable monthly. The Fund pays a management fee of 1.25% per annum for Series A units and 0.75 % 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 approximately 40% of the management fee of Series A units.

Year-by-Year Returns

Series A

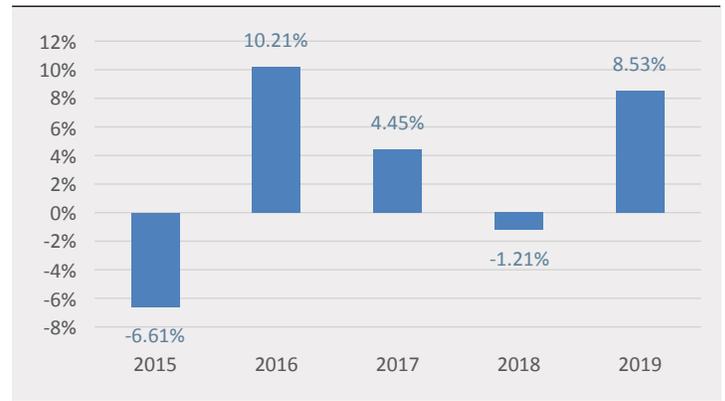


Past Performance

The commencement date of being distributed under a prospectus for Series A and Series F was December 30, 2014. 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



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Annual Compound Returns

The following table shows the Fund's annual compound return for each period indicated, compared with the ICE BofAML US Corporate Master-Total Return Index (the "Index"). 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, 2019		1 Year		3 Year ²		5 Year ²		Since Inception ³
Annual Compound Return								
Series A ¹	%	7.92	%	3.26	%	2.31	%	2.31
Series F ¹		8.53		3.84		2.88		2.88
ICE BofAML US Corporate Master-Total Return Index ³	%	14.23	%	5.94	%	4.60	%	4.59

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 30, 2014 to December 31, 2019. Since inception returns are annualized.

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Summary of Investment Portfolio

	% of NAV		% of NAV
Top 25 Issuers		Asset Mix	
GE Capital Corp Ltd	8.9	Cash and Cash Equivalents	4.8
Lloyds Banking Group PLC	7.6	U.S. Fixed Income	43.0
Toronto Dominion Bank	6.8	Canadian Fixed Income	31.7
Royal Bank of Canada	6.8	Canadian Equities	2.6
Maxar Technologies Inc.	6.7	Foreign Fixed Income	15.1
JP Morgan Chase & Co	6.7	Other Assets less Liabilities	2.8
Unicredit SPA	6.0	Total	100.0
Cash and Cash Equivalents	4.8	Sector	
Halfmoon Parent Inc.	4.4	Cash and Cash Equivalents	4.8
Goldman Sachs	4.3	Communication Services	17.7
Ford Motor Credit Co.	4.0	Consumer Staples	2.1
AT&T Inc.	3.5	Energy	7.3
Enbridge Inc	2.8	Federal	0.6
Ford Credit Canada Ltd.	2.6	Financials	62.5
Verizon Communications Inc.	2.5	Industrials	1.8
Sobeys Inc.	2.1	Infrastructure	0.4
Videotron Ltee.	2.1	Other Assets less Liabilities	2.8
TransCanada Pipelines	2.0	Total	100.0
ClearStream Energy Services Inc. (Equity)	1.8		
Royal Bank of Scotland	1.5		
Morgan Stanley	1.3		
SNC Lavalin	1.0		
Xplornet Communications Inc. (Equity)	0.8		
Element Fleet Management	0.8		
Yellow Pages Digital & Media Solutions Ltd	0.7		
Total	93.2		



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