

Annual Management Report of Fund Performance
As at December 31, 2020

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, 2020 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, 2020. 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 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”), a company under common control as the 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

The Fund had returns for the year of 26.09% for Class A units and 26.02% for Class F units. At the end of the year, the Fund held approximately 69% of its net asset value in short positions. These primarily consisted of short positions in Government of Canada bonds and U.S. Treasury bonds.

The net assets of the Fund were \$144.1 million at December 31, 2020 compared to \$156.6 million at the beginning of the year. This was mainly due to appreciation and net earnings of the Fund offset by cash distributions of approximately \$5.9 million and net redemptions of approximately \$37.3 million.

During the year, the Fund paid a performance fee of approximately \$4.8 million equal to 20% of its outperformance of the FTSE Canada All Corporate Bond Index.

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 or have been described below.

The Fund did borrow during the year. During the year, the minimum amount borrowed was approximately \$10.3 million

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and the maximum amount borrowed was approximately \$27.2 million. As of December 31, 2020, the Fund's bank overdraft was 13% of the net assets of the Fund. The borrowed money was used to purchase long positions in the portfolio. The terms of the borrowing are according with the contract with Scotia Prime Brokerage.

Recent Developments

The COVID-19 pandemic took markets on a wild ride in 2020. The pandemic has had a staggering impact on the global economy. Certain industries have seen their revenues slashed and this has led to mass layoffs. Governments have responded with a series of financial and tax relief measures that are unprecedented in peacetime. This has been supplemented by various actions by central banks to improve liquidity in financial markets.

After the first quarter selloff, markets came roaring back in spectacular fashion. This was helped in no small part by massive Government assistance and central bank actions. The US Federal Reserve implemented a number of, what they described as, "funding, credit, liquidity, and loan facilities". These included the direct purchase of corporate bonds and related ETFs in both the primary and secondary markets. The Bank of Canada has also implemented similar programs.

The announcement of effective COVID-19 vaccines in November lit a fire under markets in the fourth quarter. Equity and credit markets were both strong. This strength was more broadly supported by the Federal Reserve's plans to continue their low interest rate policy until their twin objectives of maximum employment and inflation of two per cent are reached. The Fed is prepared to allow moderately higher inflation in the short term so that inflation averages two per cent over time. The Fed maintained its pace of purchasing Treasury securities and agency mortgage-backed securities to sustain smooth market functioning.

The Bank of Canada has also acted decisively to cut interest rates to protect the Canadian economy that is reeling from the widespread impact of the pandemic. The central bank provided liquidity to Canadian banks as the Government urged the banks to support businesses and consumers through these difficult times. The central bank has expanded its balance sheet exponentially by purchasing mortgage bonds, corporate and provincial bonds and commercial paper.

For the year as a whole, equity markets were generally strong, especially the technology-heavy NASDAQ index. Bond markets produced high single digit returns, with credit outperforming Government bonds. Higher yielding bonds generally outperformed highly rated corporates.

Credit spreads continued to rally during the second half of the year, fueled by unprecedented government backed stimulus programs. While spreads began to tighten off the wide levels of the spring, the bonds of pandemically impacted companies still represented tremendous value throughout the summer and early fall. The Fund opportunistically added to existing positions at attractive levels and purchased new issues of Avis Budget Car and Occidental Petroleum. The Fund purchased a newly created AT1 security, the Limited Recourse Capital Note, which was issued by Royal Bank of Canada.

Trading activity towards the end of the year was subdued as spreads continued to normalize after the announcements of COVID-19 vaccines. As of December 31, 2020, the Fund was 63% invested in High Yield names versus 70% at mid year. Duration in the Fund was 4.3 years.

At the end of the year, the Fund held long positions that were approximately 169.8% of the net asset value of the Fund.

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 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 \$1,052,349 (excluding HST) in management fees to the Manager for the year ended December 31, 2020 (December 31, 2019- \$1,180,803).

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, 2020, the Performance Fee accrued payable by the Fund was \$4,855,870 (excluding HST) (December 31, 2019 -Nil).

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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 \$3,884,969 (excluding HST) to the Portfolio Manager for the year ended December 31, 2020 (December 31, 2019 - \$551,041) 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-2020	31-Dec-2019	31-Dec-2018	31-Dec-2017	31-Dec-2016
Net assets per unit¹					
Net assets, beginning of year	\$ 11.34	\$ 10.70	\$ 11.65	\$ 11.32	\$ 10.75
Operations:					
Total revenue	1.45	0.75	0.49	0.78	0.76
Total expenses	(0.84)	(0.34)	(0.30)	(0.41)	(0.26)
Realized gains (losses)	1.25	(0.15)	0.21	0.21	(0.46)
Unrealized gains (losses)	0.67	0.88	(0.84)	0.21	0.95
Total increase (decrease) from operations²	\$ 2.53	\$ 1.14	\$ (0.44)	\$ 0.79	\$ 0.99
Distributions:					
From income (excluding dividends)	\$ (0.31)	\$ -	\$ (0.11)	\$ (0.52)	\$ (0.48)
From dividends	(0.07)	(0.02)	(0.03)	(0.02)	-
From capital gains	(1.7)	-	-	-	-
From return of capital	-	(0.48)	(0.36)	-	(0.02)
Total distributions^{2 3}	\$ (2.08)	\$ (0.50)	\$ (0.50)	\$ (0.54)	\$ (0.50)
Net assets, end of year^{2 3}	\$ 13.69	\$ 11.34	\$ 10.70	\$ 11.65	\$ 11.32
Ratios and supplemental data					
Net asset value ⁴ (thousands)	\$ 132,886	\$ 142,866	\$ 138,957	\$ 153,038	\$ 194,815
Units outstanding	9,706,083	12,603,943	12,986,466	13,139,530	17,208,747
Management expense ratio ⁵	% 5.40	% 1.52	% 1.50	% 2.73	% 2.33
Management expense ratio before waivers or absorption	5.40	1.52	1.50	2.73	2.33
Portfolio turnover rate ⁶	86.43	48.10	34.94	43.11	31.33
Trading expense ratio ⁷	-	0.01	0.02	0.01	0.03
Net asset value per unit, end of year	13.69	11.34	10.70	11.65	11.32
Closing Market price per unit ⁴	\$ 13.41	\$ 10.90	\$ 11.16	\$ 11.32	\$ 10.86

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 2017 and 2020 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.
- 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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Class F

Year ended	31-Dec-2020	31-Dec-2019	31-Dec-2018	31-Dec-2017	31-Dec-2016
Net assets per unit¹					
Net assets, beginning of year	\$ 12.39	\$ 11.62	\$ 12.55	\$ 12.14	\$ 11.47
Operations:					
Total revenue	1.57	0.82	0.53	0.85	0.82
Total expenses	(0.88)	(0.32)	(0.28)	(0.41)	(0.26)
Realized gains (losses)	1.35	(0.16)	0.23	0.20	(0.49)
Unrealized gains (losses)	0.55	0.94	(0.88)	0.27	0.97
Total increase (decrease) from operations²	\$ 2.59	\$ 1.28	\$ (0.40)	\$ 0.91	\$ 1.04
Distributions:					
From income (excluding dividends)	\$ (0.37)	\$ -	\$ (0.1)	\$ (0.53)	\$ (0.43)
From dividends	(0.08)	(0.02)	(0.04)	(0.03)	-
From capital gains	(1.77)	-	-	-	-
From return of capital	-	(0.48)	(0.36)	-	(0.07)
Total distributions^{2 3}	\$ (2.22)	\$ (0.50)	\$ (0.50)	\$ (0.56)	\$ (0.50)
Net assets, end of year^{2 3}	\$ 15.01	\$ 12.39	\$ 11.62	\$ 12.55	\$ 12.14
Ratios and supplemental data					
Net asset value ⁴ (thousands)	\$ 11,253	\$ 13,749	\$ 17,052	\$ 20,160	\$ 21,279
Units outstanding	749,740	1,109,959	1,467,453	1,606,525	1,753,184
Management expense ratio ⁵	% 5.21	% 1.16	% 1.14	% 2.51	% 2.11
Management expense ratio before waivers or absorption	5.21	1.16	1.14	2.51	2.11
Portfolio turnover rate ⁶	86.43	48.1	34.94	43.11	31.33
Trading expense ratio ⁷	-	0.01	0.02	0.01	0.03
Net asset value per unit, end of year	\$ 15.01	\$ 12.39	\$ 11.62	\$ 12.55	\$ 12.14

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 2017 and 2020 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.
- 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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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.

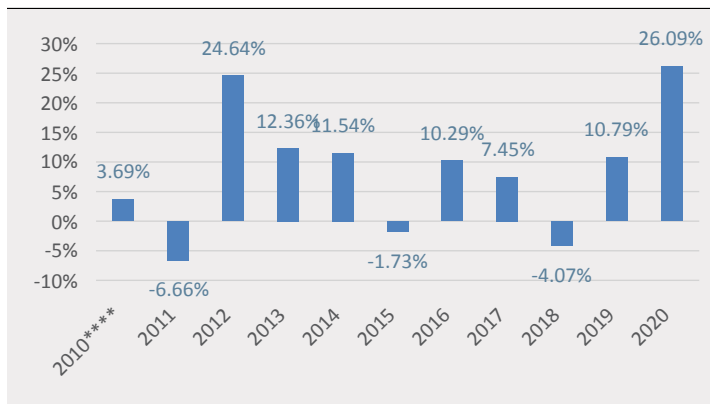
In consideration for such services, the Manager receives a monthly management fee, based on the net asset value of each Class, calculated daily and payable monthly. The Fund pays a management fee of 0.75% per annum for Class A and Class F units.

Service fees or trailing commissions ("Service Amount") are calculated and paid by the Fund 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 Fund 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. The Service Amount was discontinued effective July 1, 2020.

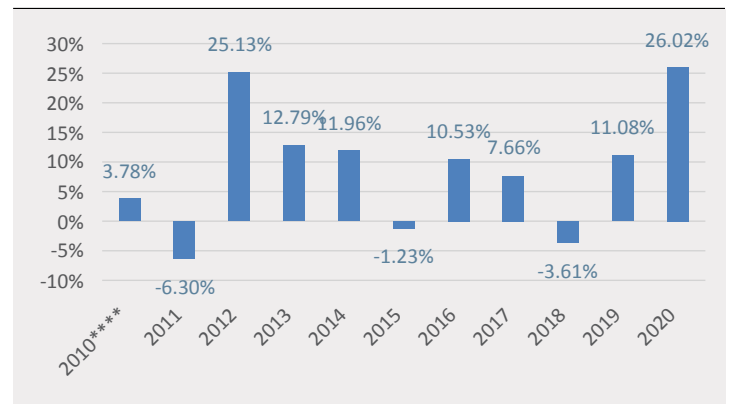
The Fund may also pay a performance fee under certain conditions as described in the Fund's most recent Annual Information Form.

Year-by-Year Returns

Class A



Class F

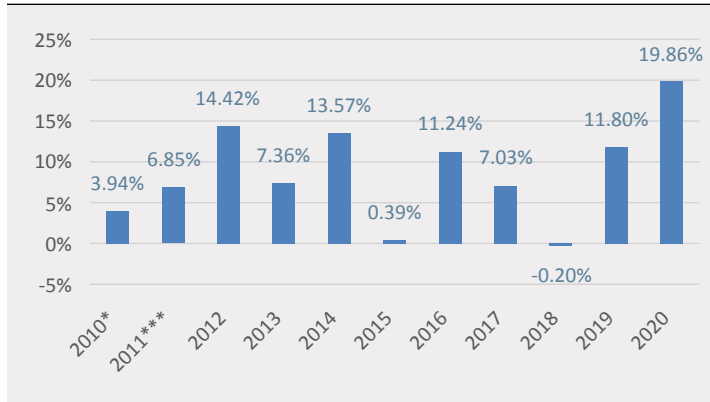


* For the period July 16 to December 31, ** Restated performance for short portfolio for January 1 to December 31, *** Restated performance for January 1 to December 31, **** Restated performance for July 16 to December 31

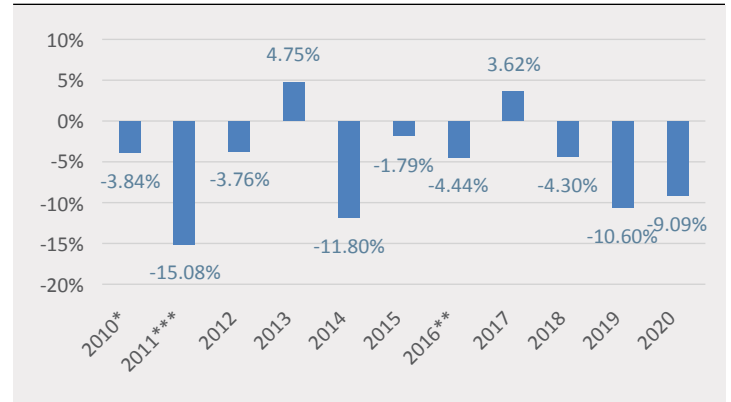
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Long Portfolio



Short Portfolio



* 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, **** Restated performance for July 16 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 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, 2020		1 Year	3 Year ²	5 Year ²	10 Year ²
Annual Compound Return					
Class A ¹	%	26.09	% 10.22	% 9.68	% 8.56
Class F ¹		26.02	10.47	9.92	8.90
Long Portfolio ¹		19.86	10.13	9.73	9.06
Short Portfolio ¹		(9.09)	(8.02)	(5.08)	(5.44)
FTSE Canada All Corporate Bond Index ³	%	8.74	% 5.91	% 4.96	% 5.02

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.

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Summary of Investment Portfolio

	% of NAV		% of NAV
Top 25 Issuers		Asset Mix	
Long positions:		Canadian Bonds - Corporate	100.0
Royal Bank of Canada (Debt)	9.3	Foreign Bonds - Corporate	55.6
Ford Credit Canada Ltd. (Debt)	8.7	Canadian Equities	16.3
Strait Crossing Development Inc. (Debt)	7.3	Options	0.1
Air Canada (Debt)	7.0	Canadian Bonds - Corporate Short	(7.2)
AT&T Inc. (Debt)	6.9	Canadian Government Debt - Short	(38.0)
Shaw Communications Inc (Debt)	6.8	Foreign Government Debt - Short	(11.1)
Enbridge Inc. (Debt)	6.6	Cash and Cash Equivalents	(13.4)
TransCanada Pipelines (Debt)	6.4	Other Assets less Liabilities	(2.3)
Boeing Co. (Debt)	6.3	Total	100.0
Bombardier Inc. (Debt)	6.1		
Maxar Technologies Inc. (Debt)	6.0		
Kraft Heinz Co. (Debt)	6.0		
Pembina Pipeline Corp. (Debt)	5.8		
Cenovus Energy Inc. (Debt)	5.8		
Yellow Pages Limited (Equity)	5.6		
Occidental Petroleum Corp. (Debt)	5.0		
GE Capital Canada (Debt)	4.9		
Spirit Aerosystems Inc. (Debt)	4.2		
American Airlines Inc (Debt)	3.8		
BCE Inc. (Equity)	3.5		
SES Global Americas Holdings GP (Debt)	3.3		
Short positions:			
Genworth MI Canada Inc. (Debt)	(7.2)		
U.S. Treasury Bond (Debt)	(11.1)		
Cash and Cash Equivalents	(13.4)		
Government of Canada (Debt)	(38.0)		
Total	55.6		
Total Portfolio Long Positions	169.8		
Total Portfolio Short Positions	(69.8)		



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