

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

Lysander Balanced Income Fund



# Lysander Balanced Income Fund

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

## 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 Balanced Income Fund (formerly Lysander-Triasima Balanced Income Fund) (the “Fund”) contains financial highlights for the year ended December 31, 2020 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, 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 Street, Suite 3037, Toronto, Ontario, M4N 3N1, by visiting our website at [www.lysanderfunds.com](http://www.lysanderfunds.com) or at SEDAR at [www.sedar.com](http://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 generate returns consisting of income and capital gains by investing primarily in a portfolio of fixed income securities and equities of companies anywhere in the world.

## Investment Strategies

The Fund’s portfolio positions are primarily invested in money market instruments and bonds, as well as income trust, preferred shares and Canadian, American and international equities including American Depositary Receipts and Global Depositary Receipts. The Fund will not be leveraged. The Fund

may invest up to 100% of its assets 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

The performance of Series A units is 5.7% and Series F is 6.6% for the year.

The net assets of the Fund increased from \$3.2 million at December 31, 2019, to \$3.8 million at December 31, 2020 mainly due to net subscriptions of \$0.4 million.

The fixed income portion of the Fund remained stable in the period at 31%. 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 continues to hold a significant amount of its fixed income exposure in high-yield and US dollar names and will look to reduce these exposures as credit spreads continue to normalize. The US dollar bond exposure is hedged back to Canadian dollars.

The equity portion of the Fund began the year 2020 solely with dividend paying equities and non-dividend-paying equities were gradually incorporated into the Fund in 2020. However, the large presence of dividend-paying equities is the main reason for the relative underperformance of the equity asset class since the

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dividend factor was out of favour throughout the year. Dividend-paying equities dropped more during the pandemic-related collapse of February and March and, later, did not bounce back as much as the new benchmark for the equity asset class, the MSCI ACWI.

The cash reserve was a negative contributor to relative equity returns. It was built-up during the March equity collapse when the pandemic spread out and it was only gradually, for the sake of prudence and capital preservation, re-invested in equities over the ensuing five months. Equity sector allocations also detracted from superior performance. Most noteworthy were the poor returns from the overweight cyclical Energy sector over the first months of the year when it performed especially poorly in the face of collapsing price and demand for oil, and the underweight in the Consumer Discretionary sector where many names did surprisingly well, surfing an unexpectedly strong consumer spending wave. The large underweight in the important growth-oriented Technology sector, where few companies pay substantial dividends, was also a major negative detractor. However, stellar security selection in the Utilities sector contributed positively to the Fund's performance. The Fund was well invested in renewable energy producers, a theme that steadily gained strength as the year unfolded.

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

## 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 Federal Reserve is prepared to allow moderately higher inflation in the short term so that inflation averages two per cent over time. The Federal Reserve 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 Spirit AeroSystems, Cenovus, and Continental Resources. The Fund also purchased newly created AT1 securities, Limited Recourse Capital Notes, issued by Royal Bank of Canada and Bank of Montreal in the third quarter.

As news of COVID-19 vaccines were announced in the late Fall, the rally in spread tightening accelerated and provided an opportunity to sell select positions, for example Ford, Teck Resources and Southwest Airlines, which had returned to fair value. The Fund began to re-establish its liquidity positioning by buying NHA MBS pools.

Effective February 1, 2021, Lysander Balanced Income Fund changed its portfolio manager from Canso Investment Counsel Ltd. ("Canso") to Lysander Funds Limited ("Lysander"). Triasima Portfolio Management Inc. ("Triasima") and Canso were appointed as sub advisors to Lysander. Triasima became primarily responsible for managing the Fund's equity

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investments while Canso is responsible for managing the Fund's fixed income investments.

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 \$28,573 (including HST) in management fees to the Manager for the year ended December 31, 2020 (December 31, 2019 - \$23,620).

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 \$14,286 (including HST) to the Portfolio Manager for the year ended December 31, 2020 (December 31, 2019 - \$11,791).

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-2020	31-Dec-2019	31-Dec-2018	31-Dec-2017	31-Dec-2016
<b>Net assets per unit<sup>1</sup></b>					
Net assets, beginning of year	\$ 10.71	\$ 9.68	\$ 10.88	\$ 10.16	\$ 10.00
Operations:					
Total revenue	0.39	0.37	0.36	0.38	0.31
Total expenses	(0.22)	(0.22)	(0.22)	(0.22)	(0.18)
Realized gains (losses)	(0.32)	(0.22)	(0.34)	0.21	(0.25)
Unrealized gains (losses)	0.76	1.22	(0.84)	0.47	0.51
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ 0.61</b>	<b>\$ 1.15</b>	<b>\$ (1.04)</b>	<b>\$ 0.84</b>	<b>\$ 0.39</b>
Distributions:					
From income (excluding dividends)	\$ (0.01)	\$ -	\$ -	\$ -	\$ (0.04)
From dividends	(0.16)	(0.12)	(0.17)	(0.12)	(0.19)
From capital gains	-	-	-	-	-
<b>Total distributions<sup>2 3</sup></b>	<b>\$ (0.17)</b>	<b>\$ (0.12)</b>	<b>\$ (0.17)</b>	<b>\$ (0.12)</b>	<b>\$ (0.23)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$ 11.13</b>	<b>\$ 10.71</b>	<b>\$ 9.68</b>	<b>\$ 10.88</b>	<b>\$ 10.16</b>
<b>Ratios and supplemental data</b>					
Net asset value <sup>4</sup>	\$ 6,010	\$ 5,686	\$ 5,080	\$ 5,623	\$ 5,194
Units outstanding	540	531	525	517	511
Management expense ratio <sup>5</sup>	% 1.99	% 1.94	% 1.96	% 1.94	% 1.68
Management expense ratio before waivers or absorption	2.61	2.77	3.14	3.95	7.62
Portfolio turnover rate <sup>6</sup>	119.6	34.1	61.1	35.6	52.1
Trading expense ratio <sup>7</sup>	0.1	0.2	0.2	0.3	0.3
Net asset value per unit, end of year	\$ 11.13	\$ 10.71	\$ 9.68	\$ 10.88	\$ 10.16

### 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-2020	31-Dec-2019	31-Dec-2018	31-Dec-2017	31-Dec-2016
<b>Net assets per unit<sup>1</sup></b>					
Net assets, beginning of year	\$ 10.73	\$ 9.70	\$ 10.88	\$ 10.16	\$ 10.00
Operations:					
Total revenue	0.39	0.37	0.36	0.38	0.33
Total expenses	(0.13)	(0.13)	(0.14)	(0.13)	(0.11)
Realized gains (losses)	(0.32)	(0.22)	(0.34)	0.06	(0.28)
Unrealized gains (losses)	0.83	1.03	(0.85)	0.90	0.71
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ 0.77</b>	<b>\$ 1.05</b>	<b>\$ (0.97)</b>	<b>\$ 1.21</b>	<b>\$ 0.65</b>
Distributions:					
From income (excluding dividends)	\$ (0.04)	\$ -	\$ -	\$ -	\$ -
From dividends	(0.23)	(0.23)	(0.22)	(0.23)	(0.21)
From capital gains	-	-	-	-	-
<b>Total distributions<sup>2 3</sup></b>	<b>\$ (0.27)</b>	<b>\$ (0.23)</b>	<b>\$ (0.22)</b>	<b>\$ (0.23)</b>	<b>\$ (0.21)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$ 11.15</b>	<b>\$ 10.73</b>	<b>\$ 9.70</b>	<b>\$ 10.88</b>	<b>\$ 10.16</b>
<b>Ratios and supplemental data</b>					
Net asset value <sup>4</sup>	\$ 3,775,428	\$ 3,182,399	\$ 1,555,179	\$ 1,640,922	\$ 432,256
Units outstanding	338,516	296,473	160,298	150,826	42,558
Management expense ratio <sup>5</sup>	% 1.15	% 1.12	% 1.14	% 1.12	% 0.93
Management expense ratio before waivers or absorption	1.78	1.93	2.33	3.26	6.11
Portfolio turnover rate <sup>6</sup>	119.6	34.1	61.1	35.6	52.1
Trading expense ratio <sup>7</sup>	0.1	0.2	0.2	0.3	0.3
Net asset value per unit, end of year	\$ 11.15	\$ 10.73	\$ 9.70	\$ 10.88	\$ 10.16

## Notes

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## Management Fees

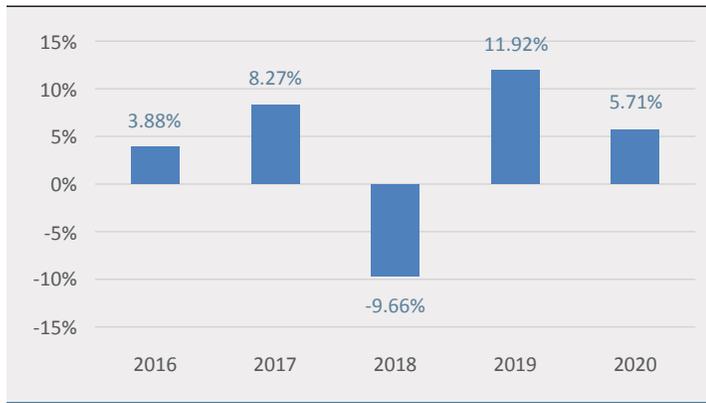
The Manager provides or arranges the provision of all general management and administrative services required by the Fund, and as described in the section “Related Party Transactions” above.

In consideration for such services, the Manager receives a monthly management fee, based on the net asset value of each Series, calculated daily and payable monthly. The Fund pays a management fee of 1.50% per annum for Series A units and 0.75% per annum for Series F units.

Service fees or trailing commissions of a maximum of 0.75% per annum are paid on Series A units to dealers. This comprises approximately 50% of the management fee of Series A units.

## Year-by-Year Returns

### Series A

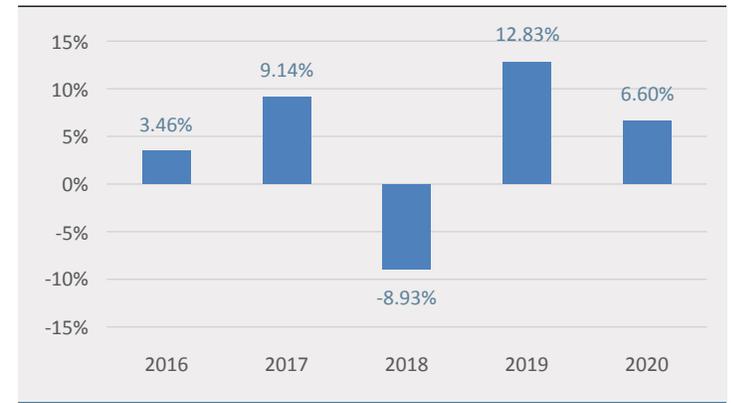


## Past Performance

The Fund became a reporting issuer on December 31, 2015. 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 5% FTSE Canada 91 Days Tbills; 30% FTSE Canada Universe Bond Index; 5% S&P/TSX Preferred Share Index; 35% S&P/TSX Composite Total Return Index; 15% S&P 500 Total Return Index; 10% MSCI EAFE Composite (CAD) (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, 2020		1 Year		3 Year <sup>2</sup>		5 Year <sup>2</sup>		Since Inception <sup>3</sup>
<b>Annual Compound Return</b>								
Series A <sup>1</sup>	%	5.71	%	2.24	%	3.75	%	3.75
Series F <sup>1</sup>		6.60		3.08		4.34		4.34
Index <sup>4</sup>	%	8.58	%	6.78	%	7.56	%	7.56

### 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 starting from December 31, 2015. Since inception returns are annualized.
- 4 FTSE Canada Global Debt Capital Markets. Copyright © FTSE Canada Global Debt Capital Markets. All rights reserved. FTSE Canada 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 Canada 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
<b>Top 25 Issuers</b>			<b>Asset Mix</b>		
WSP Global (Equity)	%	3.2	Canadian Equities	%	16.2
Air Canada (Debt)		2.7	Canadian Fixed Income		11.5
Rwe Aktiengesellscha FT (Equity)		2.6	Cash and Cash Equivalents		1.3
Bombardier Inc. (Debt)		2.4	Foreign Equities		39.5
Manulife Financial Corp. (Equity)		2.4	Foreign Fixed Income		19.0
Maxar Technologies Inc. (Debt)		2.4	Preferred Shares		12.3
Occidental Petroleum Corporation (Debt)		2.3	Other Assets less Liabilities		0.2
NextEra Energy Inc. (Equity)		2.3	<b>Total</b>	<b>%</b>	<b>100.0</b>
GE Capital Corporation Ltd (Debt)		2.1	<b>Sector</b>		
Spirit Aerosystems Inc. (Debt)		2.0	Cash and Cash Equivalents	%	1.3
Cenovus Energy Inc. (Debt)		2.0	Communication Services		2.5
Intact Financial Corp. (Equity)		2.0	Consumer Discretionary		4.2
Microsoft Corporation (Equity)		1.9	Consumer Staples		4.3
Continental Resources, Inc. (Debt)		1.9	Energy		16.1
Granite Real Estate Investment Trust (Equity)		1.9	Financials		19.4
Pembina Pipeline Corporation (Equity)		1.8	Health Care		3.6
iShares Preferred & Income Securities (Equity)		1.8	Industrials		24.1
National Bank of Canada (Equity)		1.7	Information Technology		7.9
American Airlines Inc. (Debt)		1.6	Materials		6.4
Enbridge Inc. (Equity)		1.6	Other Assets less Liabilities		0.2
BCE Inc. (Equity)		1.6	Real Estate		1.9
Ford Credit Canada Company (Debt)		1.5	Utilities		8.1
TC Energy Corporation (Equity)		1.5	<b>Total</b>	<b>%</b>	<b>100.0</b>
Bank of Montreal (Equity)		1.4			
Avis Budget Car Rental (Debt)		1.4			
<b>Total</b>	<b>%</b>	<b>50.0</b>			



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