

**Annual Management Report of Fund Performance**

As at December 31, 2020

Lysander-Canso U.S. Credit Fund



# 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, 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 St., 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 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 19.97% for Series A and 20.66% 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 \$69.5 million at December 31, 2020 from \$36.2 million at the beginning of the year. There were net subscriptions of over \$24.4 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 or have been described below.

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

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## 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 had moved 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.

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, like Teck Resources and Southwest Airlines, which had returned to fair value.

As of December 31, 2020, the Fund was 23% invested in BBB names and 60% in High Yield names versus 33% and 55% respectively at June 30, 2020. Duration in the fund was 3.7 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 USD \$421,441 (including HST) in management fees to the Manager for the year ended December 31, 2020 (December 31, 2019 - USD \$283,312).

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 \$267,459 (including HST) to the Portfolio Manager for the year ended December 31, 2020 (December 31, 2019 - CAD \$178,443).

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

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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 (USD)	31-Dec-2019 (USD)	31-Dec-2018 (USD)	31-Dec-2017 (USD)	31-Dec-2016 (USD)
<b>Net assets per unit<sup>1</sup></b>					
Net assets, beginning of year	\$ 9.88	\$ 9.40	\$ 9.78	\$ 9.59	\$ 8.95
Operations:					
Total revenue	0.49	0.37	0.32	0.36	0.49
Total expenses	(0.16)	(0.15)	(0.15)	(0.16)	(0.15)
Realized gains (losses)	0.10	(0.04)	0.06	0.09	(0.42)
Unrealized gains (losses)	1.66	0.54	(0.42)	0.08	0.91
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ 2.09</b>	<b>\$ 0.72</b>	<b>\$ (0.19)</b>	<b>\$ 0.36</b>	<b>\$ 0.83</b>
Distributions:					
From income (excluding dividends)	\$ 0.31	\$ (0.27)	\$ (0.22)	\$ (0.18)	\$ (0.21)
From dividends	0.01	-	-	-	-
From capital gains	-	-	-	-	-
<b>Total distributions<sup>2 3</sup></b>	<b>\$ 0.32</b>	<b>\$ (0.27)</b>	<b>\$ (0.22)</b>	<b>\$ (0.18)</b>	<b>\$ (0.21)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$ 11.53</b>	<b>\$ 9.88</b>	<b>\$ 9.40</b>	<b>\$ 9.78</b>	<b>\$ 9.59</b>
<b>Ratios and supplemental data</b>					
Net asset value <sup>4</sup>	\$ 8,483,661	\$ 3,683,051	\$ 2,526,963	\$ 2,821,663	\$ 2,487,986
Units outstanding	735,635	372,651	268,691	288,432	259,447
Management expense ratio <sup>5</sup>	% 1.53	% 1.56	% 1.51	% 1.66	% 1.70
Management expense ratio before waivers or absorption	1.53	1.56	1.51	1.66	1.72
Portfolio turnover rate <sup>6</sup>	85.23	44.97	63.67	53	69
Trading expense ratio <sup>7</sup>	0.02	-	-	-	-
Net asset value per unit, end of year	\$ 11.53	\$ 9.88	\$ 9.40	\$ 9.78	\$ 9.59

### 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 (USD)	31-Dec-2019 (USD)	31-Dec-2018 (USD)	31-Dec-2017 (USD)	31-Dec-2016 (USD)
<b>Net assets per unit<sup>1</sup></b>					
Net assets, beginning of year	\$ 9.85	\$ 9.33	\$ 9.66	\$ 9.47	\$ 8.99
<b>Operations:</b>					
Total revenue	0.48	0.37	0.32	0.35	0.49
Total expenses	(0.10)	(0.10)	(0.09)	(0.11)	(0.11)
Realized gains (losses)	0.10	(0.03)	0.06	0.09	(0.37)
Unrealized gains (losses)	1.6	0.54	(0.41)	0.06	0.81
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ 2.08</b>	<b>\$ 0.78</b>	<b>\$ (0.12)</b>	<b>\$ 0.39</b>	<b>\$ 0.82</b>
<b>Distributions:</b>					
From income (excluding dividends)	\$ 0.35	\$ (0.27)	\$ (0.22)	\$ (0.24)	\$ (0.42)
From dividends	0.01	-	-	-	-
From capital gains	-	-	-	-	-
<b>Total distributions<sup>2 3</sup></b>	<b>\$ 0.36</b>	<b>\$ (0.27)</b>	<b>\$ (0.22)</b>	<b>\$ (0.24)</b>	<b>\$ (0.42)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$ 11.5</b>	<b>\$ 9.85</b>	<b>\$ 9.33</b>	<b>\$ 9.66</b>	<b>\$ 9.47</b>
<b>Ratios and supplemental data</b>					
Net asset value <sup>4</sup>	\$ 61,070,481	\$ 32,612,431	\$ 25,642,093	\$ 25,484,068	\$ 13,420,052
Units outstanding	5,309,423	3,311,921	2,749,678	2,637,839	1,416,951
Management expense ratio <sup>5</sup>	% 0.97	% 1.00	% 0.97	% 1.09	% 1.13
Management expense ratio before waivers or absorption	0.97	1.00	0.97	1.09	1.15
Portfolio turnover rate <sup>6</sup>	85.23	44.97	63.67	53	69
Trading expense ratio <sup>7</sup>	0.02	-	-	-	-
Net asset value per unit, end of year	\$ 11.5	\$ 9.85	\$ 9.33	\$ 9.66	\$ 9.47

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## Management Fees

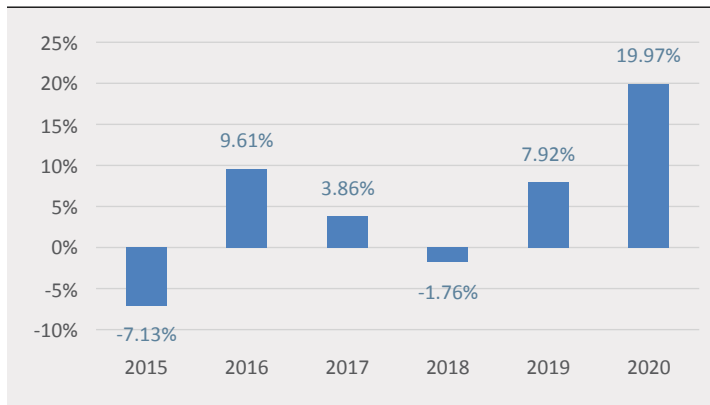
The Manager provides or arranges the provision of all general management and administrative services required by the Fund, and as described in the section “Related Party Transactions” above.

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 40% of the management fee of Series A units.

## Year-by-Year Returns

### Series A

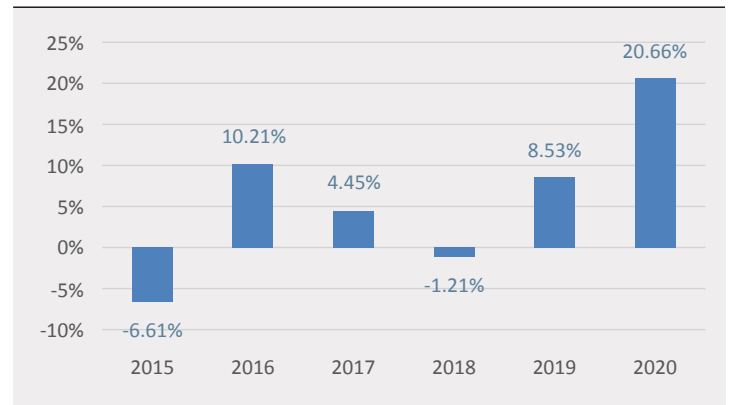


## Past Performance

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, 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>	%	19.97	%	8.35	%	7.68	%	5.06
Series F <sup>1</sup>		20.66		8.96		8.29		5.65
ICE BofAML US Corporate Master-Total Return Index <sup>3</sup>	%	9.81	%	7.03	%	6.71	%	5.46

### 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, 2020. Since inception returns are annualized.

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## Summary of Investment Portfolio

	% of NAV			% of NAV	
<b>Top 25 Issuers</b>			<b>Asset Mix</b>		
Air Canada	%	6.2	U.S. Fixed Income	%	50.6
Boeing Co.		5.7	Canadian Fixed Income		37.9
Bombardier Inc.		5.3	Canadian Equities		0.2
Occidental Petroleum Corporation		5.3	Cash and Cash Equivalents		2.5
Spirit Aerosystems Inc.		4.9	Preferred Shares		7.7
Cenovus Energy Inc.		4.3	Other Assets less Liabilities		1.1
Continental Resources, Inc.		4.2	<b>Total</b>	<b>%</b>	<b>100.0</b>
GE Capital Corporation Ltd		4.2	<b>Sector</b>		
Maxar Technologies Inc.		4.0	Cash and Cash Equivalents	%	2.5
Enbridge Inc. (Equity)		3.8	Communication Services		5.3
Ford Credit Canada Company		3.4	Consumer Staples		1.5
American Airlines Inc.		3.2	Energy		26.4
NatWest Group plc		2.8	Federal		2.3
Ford Motor Credit Company		2.7	Financials		25.4
Royal Bank of Canada		2.7	Industrials		30.7
Hertz Global Holdings Inc.		2.7	Information Technology		4.8
Cash and Cash Equivalents		2.5	Other Assets less Liabilities		1.1
Avis Budget Group, Inc.		2.4	<b>Total</b>	<b>%</b>	<b>100.0</b>
TransCanada Pipelines		2.4			
Equitable Bank NHA MBS (97518284)		2.3			
Met Life Global Funding I		2.2			
Videotron Ltee.		1.9			
BCE Inc. (Equity)		1.8			
Ovintiv Inc.		1.7			
Unicredit SPA		1.6			
<b>Total</b>	<b>%</b>	<b>84.2</b>			



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