

**Annual Management Report of Fund Performance**

As at December 31, 2020

Lysander-Canso Credit Opportunities Fund



# Lysander-Canso Credit Opportunities 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 Credit Opportunities 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 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 by investing in, or gaining exposure to, a diversified portfolio composed primarily of debt and money market securities. The Fund will use alternative investment strategies such as engaging in short sales and purchasing securities on margin or with borrowed funds.

## 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 will seek to achieve returns

through a portfolio that primarily invests in, or has exposure to, corporate bonds of Canadian and foreign issuers. Portfolio investments may include higher risk securities and the Fund may take large portfolio exposures to specific countries, market sectors, market movements or other investment insights. The Fund may invest up to 100% of its assets at the time 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

Since becoming a reporting issuer, the Fund had positive returns of 25.5% for Series A, 34.9% for Series C and 32.0% 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 approximately \$22.8 million at December 31, 2020 from \$5.8 million at the beginning of the year. This was mainly due to net subscriptions of \$13.8 million during the year.

On February 20, 2020, the trustee and investment fund manager of the Fund changed from Canso Fund Management Ltd., an affiliate of the Manager, to the Manager. Prior to May 11, 2020, securities of the Fund were offered only on a private placement basis. On May 11, 2020, the Fund became a reporting issuer by filing a prospectus with securities regulatory authorities in each province and territory in Canada. While these were fundamental changes that occurred to the Fund, neither the Manager nor the

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Portfolio Manager are of the view that these changes affected the Fund's investment strategies in any material fashion.

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 period 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. We opportunistically added to existing positions at attractive levels and purchased new issues of Avis Budget Car, Cenovus, and Continental Resources. We also purchased newly created AT1 securities, Limited Recourse Capital Notes, issued by RBC and BMO in the third quarter.

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 54% invested in High Yield names versus 40% at mid year. Duration in the fund was 4.1 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 \$103,484 (including HST) in management fees to the Manager for the period ended December 31, 2020 (December 31, 2019 - Nil, as the Manager changed from Canso to Lysander as of February 20, 2020).

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 Prospectus. For the period ended December 31, 2020, the Performance Fee accrued

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payable by the Fund was \$370,729 (including HST) (December 31, 2019 - Nil).

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 the Portfolio Manager 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 \$46,101 (including HST) to the Portfolio Manager for the period ended December 31, 2020 (December 31, 2019 - Nil).

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	
<b>Net assets per unit<sup>1</sup></b>		
Net assets, beginning of year	\$	-
Operations:		
Total revenue		0.42
Total expenses		(0.27)
Realized gains (losses)		0.32
Unrealized gains (losses)		2.03
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$</b>	<b>2.50</b>
Distributions:		
From income (excluding dividends)	\$	0.58
From dividends		0.05
From capital gains		0.75
<b>Total distributions<sup>2 3</sup></b>	<b>\$</b>	<b>1.38</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$</b>	<b>11.74</b>
<b>Ratios and supplemental data</b>		
Net asset value <sup>4</sup>	\$	988,854
Units outstanding		84,203
Management expense ratio <sup>5</sup>	%	3.75
Management expense ratio before waivers or absorption		4.13
Portfolio turnover rate <sup>6</sup>		32.3
Trading expense ratio <sup>7</sup>		0.02
Net asset value per unit, end of year	\$	11.74

### Notes

\* Series A commenced operations on May 11, 2020 and accordingly prior period numbers are not available.

**1** 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.

**2** 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.

**3** Distributions were paid in cash or reinvested in additional units, or both.

**4** This information is provided at the end of the period shown.

**5** 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.

**6** 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.

**7** 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 C\*

Year ended	31-Dec-2020	
<b>Net assets per unit<sup>1</sup></b>		
Net assets, beginning of year	\$	12.14
Operations:		
Total revenue		0.72
Total expenses		(0.10)
Realized gains (losses)		1.06
Unrealized gains (losses)		3.17
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$</b>	<b>4.85</b>
Distributions:		
From income (excluding dividends)	\$	0.35
From dividends		0.03
From capital gains		0.33
<b>Total distributions<sup>2 3</sup></b>	<b>\$</b>	<b>0.71</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$</b>	<b>13.68</b>
<b>Ratios and supplemental data</b>		
Net asset value <sup>4</sup>	\$	2,090,691
Units outstanding		152,830
Management expense ratio <sup>5</sup>	%	0.86
Management expense ratio before waivers or absorption		1.43
Portfolio turnover rate <sup>6</sup>		32.3
Trading expense ratio <sup>7</sup>		0.02
Net asset value per unit, end of year	\$	13.68

## Notes

\* The Fund became a reporting issuer on May 11, 2020 and accordingly prior period numbers are not available.

**1** 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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## Series F\*

Year ended	31-Dec-2020	
<b>Net assets per unit<sup>1</sup></b>		
Net assets, beginning of year	\$	9.47
Operations:		
Total revenue		0.58
Total expenses		(0.47)
Realized gains (losses)		0.39
Unrealized gains (losses)		1.92
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$</b>	<b>2.42</b>
Distributions:		
From income (excluding dividends)	\$	0.42
From dividends		0.04
From capital gains		0.56
<b>Total distributions<sup>2 3</sup></b>	<b>\$</b>	<b>1.02</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$</b>	<b>10.22</b>
<b>Ratios and supplemental data</b>		
Net asset value <sup>4</sup>	\$	19,745,200
Units outstanding		1,932,671
Management expense ratio <sup>5</sup>	%	4.91
Management expense ratio before waivers or absorption		5.40
Portfolio turnover rate <sup>6</sup>		32.31
Trading expense ratio <sup>7</sup>		0.02
Net asset value per unit, end of year	\$	10.22

## Notes

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**2** 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.

**3** Distributions were paid in cash or reinvested in additional units, or both.

**4** This information is provided at the end of the period shown.

**5** 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.

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## Management Fees

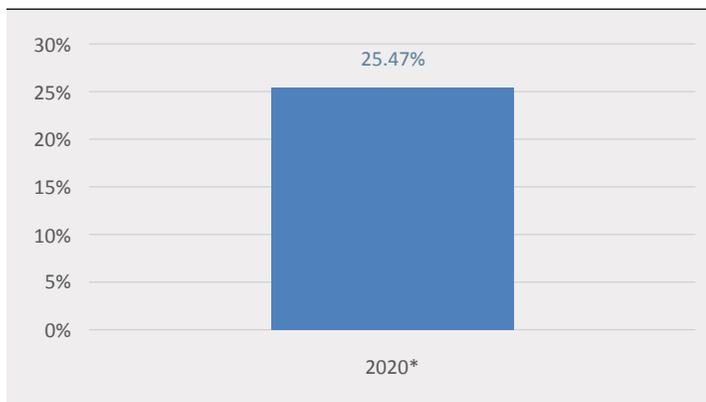
The Manager provides or arranges the provision of all general management and administrative services required by the Fund, and as described in the section “Related Party Transactions” above.

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. Effective May 11, 2020, the Fund paid a management fee of 1.25% per annum for Series A units, 0.50% per annum for Series C and 0.75% (formerly 1.00%) per annum for Series F units.

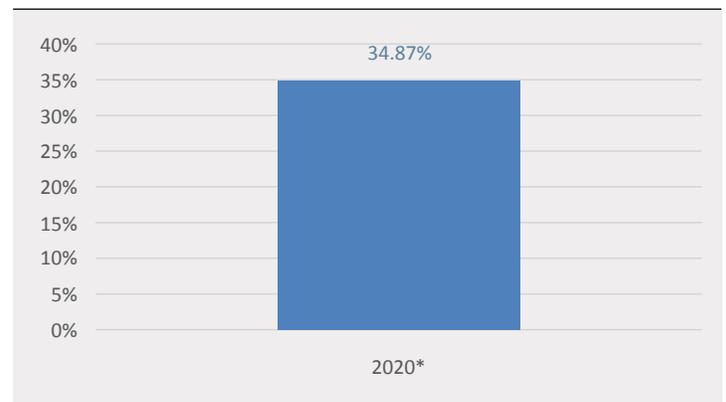
Service fees or trailing commissions of a maximum of 0.50% per annum are paid on Series A units to dealers. This comprises approximately 40% of the management fee of Series A units.

## Year-by-Year Returns

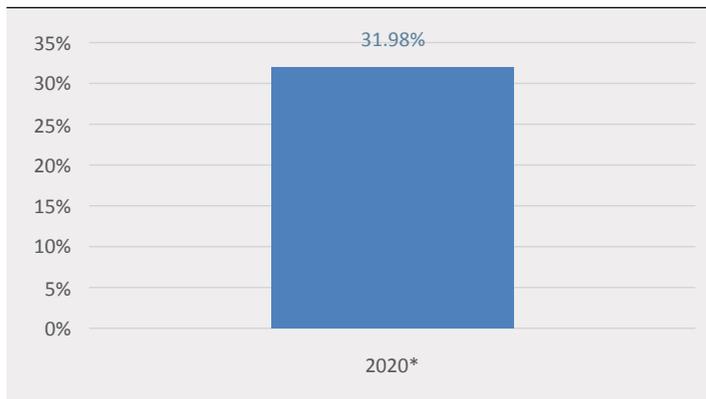
### Series A



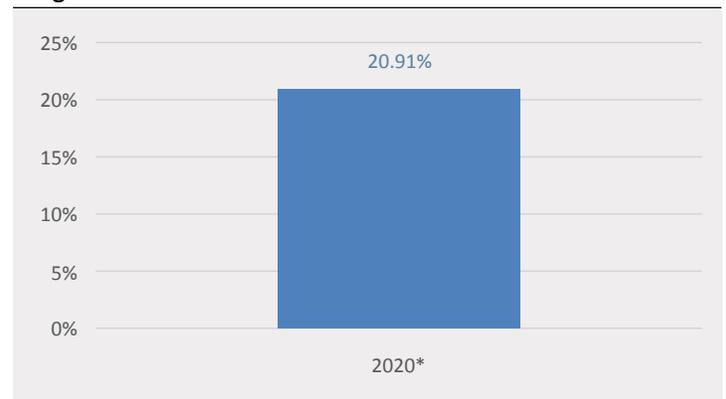
### Series C



### Series F



### Long Portfolio



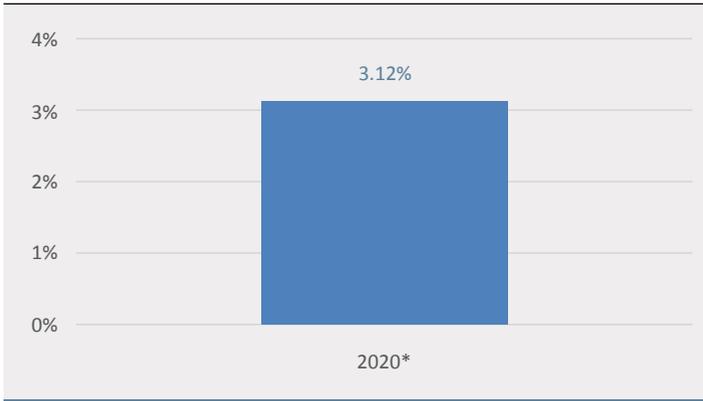
\* For the period May 11 to December 31

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## Short Portfolio



\* For the period May 11 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		Since Inception <sup>2</sup>
<b>Annual Compound Return</b>		
Series A <sup>1</sup>	%	25.47
Series C <sup>1</sup>		34.87
Series F <sup>1</sup>		31.98
Long Portfolio		20.91
Short Portfolio		3.12
Index <sup>3</sup>	%	6.33

### Notes

<sup>1</sup> Returns are based on the net asset value per unit of the relevant series of the Fund and assume that all distributions were reinvested.

<sup>2</sup> Period starting from May 11, 2020.

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## Summary of Investment Portfolio

	% of NAV	% of NAV
<b>Top 25 Issuers</b>		
Long positions:		
Royal Bank of Canada (Debt)	6.1	
Shaw Communications Inc (Debt)	6.1	
Cash and Cash Equivalents	5.8	
TransCanada Pipelines (Debt)	5.6	
Air Canada (Debt)	5.4	
Bombardier Inc. (Debt)	5.4	
Occidental Petroleum Corporation (Debt)	5.3	
Spirit Aerosystems Inc. (Debt)	5.1	
Suncor Energy Inc. (Debt)	4.9	
AT&T Inc. (Debt)	4.7	
Ford Credit Canada Company (Debt)	4.7	
Pembina Pipeline Corporation (Debt)	4.6	
Cenovus Energy Inc. (Debt)	4.1	
Continental Resources, Inc. (Debt)	4.1	
Enbridge Inc. (Debt)	3.4	
Fedex Corporation (Debt)	2.9	
Boeing Co. (Debt)	2.9	
American Airlines Inc. (Debt)	2.6	
Exxon Mobil Corporation (Debt)	2.5	
Shell International Finance BV (Debt)	2.3	
SNC Lavalin (Debt)	2.2	
Nav Canada (Debt)	2.1	
Short positions:		
Government of Canada (Debt)	(21.5)	
U.S. Treasury Bond (Debt)	(11.0)	
Genworth MI Canada Inc. (Debt)	(6.0)	
<b>Total</b>	<b>54.2</b>	
Total Portfolio Long Positions	138.5	
Total Portfolio Short Positions	(38.5)	
<b>Asset Mix</b>		
Canadian Equities	1.8	
Canadian Fixed Income	66.1	
Cash and Cash Equivalents	5.8	
Fixed Income - Short	(38.5)	
Foreign Fixed Income	51.9	
Preferred Shares	9.0	
Private Placements	0.5	
Other Assets less Liabilities	3.4	
<b>Total</b>	<b>100.0</b>	
<b>Sector</b>		
Cash and Cash Equivalents	5.8	
Communication Services	19.4	
Consumer Discretionary	0.4	
Consumer Staples	2.7	
Energy	44.5	
Federal	(32.6)	
Financials	22.4	
Industrials	28.7	
Information Technology	4.4	
Materials	0.9	
Other Assets less Liabilities	3.4	
<b>Total</b>	<b>100.0</b>	



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