

**Semi-Annual Management Report of Fund Performance**  
As at June 30, 2021

Canso Credit Income Fund



# Canso Credit Income Fund

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## A Note About Forward Looking Statements

This semi-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 semi-annual Management Report of Fund Performance of Canso Credit Income Fund (the “Fund”) contains financial highlights for the period ended June 30, 2021 but does not contain the complete financial statements of the investment fund. This report should be read in conjunction with the semi-annual financial statements of the Fund for the period ended June 30, 2021. 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 (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 period of 11.42% for Class A units and 11.33% for Class F units. At the end of the period, the Fund held approximately 42% 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 \$157.3 million at June 30, 2021 compared to \$144.1 million at the beginning of the period. This was mainly due to appreciation and net earnings of the Fund offset by cash distributions of approximately \$2.6 million and net redemptions of approximately \$757 thousand.

During the period, the Fund accrued a performance fee of approximately \$6.0 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.

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

## Recent Developments

Investors entered the new year concerned with medical, economic and political challenges. In the U.S., the Democrats won control of the Senate, paving the way for the new administration to pass a larger stimulus package. Fiscal policy relief did not immediately allay investor concerns over increased COVID-19 cases and the impact of renewed lockdown measures. However, views changed rapidly as the vaccine rollout gathered pace and the prospect for an economic reopening crystallized. Economists quickly altered forecasts predicting a stronger recovery and higher inflation. Reassurance from the Federal Reserve that short rates would remain near zero, coupled with government support for the economy proved good news for equity markets but less so for bond markets as mid and long term yields moved sharply higher in the first quarter.

As inflation pushed to its highest level in more than a decade, U.S. government bond yields surprisingly retreated from their March 31st levels. Government bond yields had risen sharply in the first quarter as the markets rode a wave of optimism. Fed officials began discussions about “tapering” bond purchases and have pushed forward the time frame when they expect to raise interest rates. Many investors agree with the Fed that high inflation is “transitory” and largely confined to the sectors most affected by the pandemic lockdowns.

In Canada, the second wave of the virus did not dent the strong economic recovery. Consumers and businesses are adapting to containment measures, and housing market activity has been much stronger than expected. Improving foreign demand and higher commodity prices have also brightened the prospects for exports and business investment.

Financial markets pushed higher in the second quarter and major equity markets reached record highs. The appetite for risk extended into fixed income with strong returns in the more speculative high yield market. Higher quality, long-term bonds rallied off their first quarter decline following the decline in longer term government bonds yields. Despite this rebound, Government bond market returns remain slightly negative through the first half of 2021 with yields still markedly higher than the pandemic lows. Yield spread narrowing has helped to insulate corporate bonds from this and produce small positive returns for the broad Canadian Corporate bond market.

Credit spread tightening in pandemic affected issuers offset a rise in government benchmark yields in the first half of 2021, leading to positive performance for the Fund. Spreads continued to tighten after hitting decade wide levels in early 2020.

Pandemically affected companies rebounded as the vaccine rollout increased internationally and economies began to reopen.

As spreads continue to normalize, the Fund reduced its weight in high-yield holdings by 7% in the period while also bringing down its hedged long/short exposure. The Fund is improving its credit quality by investing in high-quality, liquid positions, including Canada Housing Trust bonds and investment-grade floating rate notes. Floating rate exposure allows us to mitigate interest rate risk while still being able to benefit from credit spread tightening. The Fund continues to only take on duration when it believes its being compensated for the incremental interest rate risk or where it is able to effectively hedge by shorting government securities. The Fund ended the period with a 41.5% short position in government securities, which are offset by corresponding long corporate bond positions, and a positive cash balance.

At the end of the year, the Fund held long positions that were approximately 141.5% 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 \$567,039(excluding HST) in management fees to the Manager for the period ended June 30, 2021 (June 30, 2020 - \$552,216).

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 period ended June 30, 2021, the Performance Fee accrued payable by the Fund was \$6,045,310 (excluding HST) (December 31, 2020 -\$4,855,870).

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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 \$264,618 (excluding HST) to the Portfolio Manager for the period ended June 30, 2021 (June 30, 2020 - \$257,701) 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

Period ended	30-Jun-2021	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 period	\$ 13.69	\$ 11.34	\$ 10.70	\$ 11.65	\$ 11.32	\$ 10.75
<b>Operations:</b>						
Total revenue	1.02	1.45	0.75	0.49	0.78	0.76
Total expenses	(0.82)	(0.84)	(0.34)	(0.30)	(0.41)	(0.26)
Realized gains (losses)	0.60	1.25	(0.15)	0.21	0.21	(0.46)
Unrealized gains (losses)	0.75	0.67	0.88	(0.84)	0.21	0.95
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ 1.55</b>	<b>\$ 2.53</b>	<b>\$ 1.14</b>	<b>\$ (0.44)</b>	<b>\$ 0.79</b>	<b>\$ 0.99</b>
<b>Distributions:</b>						
From income (excluding dividends)	\$ (0.25)	\$ (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)
<b>Total distributions<sup>2 3</sup></b>	<b>\$ (0.25)</b>	<b>\$ (2.08)</b>	<b>\$ (0.50)</b>	<b>\$ (0.50)</b>	<b>\$ (0.54)</b>	<b>\$ (0.50)</b>
<b>Net assets, end of period<sup>2 3</sup></b>	<b>\$ 15.00</b>	<b>\$ 13.69</b>	<b>\$ 11.34</b>	<b>\$ 10.70</b>	<b>\$ 11.65</b>	<b>\$ 11.32</b>
<b>Ratios and supplemental data</b>						
Net asset value <sup>4</sup> (thousands)	\$ 145,734	\$ 132,886	\$ 142,866	\$ 138,957	\$ 153,038	\$ 194,815
Units outstanding	9,718,514	9,706,083	12,603,943	12,986,466	13,139,530	17,208,747
Management expense ratio <sup>5</sup>	% 10.23	% 5.40	% 1.52	% 1.50	% 2.73	% 2.33
Management expense ratio before waivers or absorption	10.23	5.40	1.52	1.50	2.73	2.33
Portfolio turnover rate <sup>6</sup>	17.45	86.43	48.10	34.94	43.11	31.33
Trading expense ratio <sup>7</sup>	0.01	-	0.01	0.02	0.01	0.03
Net asset value per unit, end of period	15.00	13.69	11.34	10.70	11.65	11.32
Closing Market price per unit <sup>4</sup>	\$ 14.31	\$ 13.41	\$ 10.90	\$ 11.16	\$ 11.32	\$ 10.86

### Notes

- The information is derived from the Fund's unaudited semi-annual and/or 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. Prior to July 1, 2020, the Fund paid servicing fees at 0.40% per annum on Class A units. On July 1, 2020, the Fund discontinued the payment of servicing fees.
- 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

Period ended	30-Jun-2021	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 period	\$ 15.01	\$ 12.39	\$ 11.62	\$ 12.55	\$ 12.14	\$ 11.47
Operations:						
Total revenue	1.12	1.57	0.82	0.53	0.85	0.82
Total expenses	(0.91)	(0.88)	(0.32)	(0.28)	(0.41)	(0.26)
Realized gains (losses)	0.65	1.35	(0.16)	0.23	0.20	(0.49)
Unrealized gains (losses)	0.83	0.55	0.94	(0.88)	0.27	0.97
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ 1.69</b>	<b>\$ 2.59</b>	<b>\$ 1.28</b>	<b>\$ (0.40)</b>	<b>\$ 0.91</b>	<b>\$ 1.04</b>
Distributions:						
From income (excluding dividends)	\$ (0.25)	\$ (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)
<b>Total distributions<sup>2 3</sup></b>	<b>\$ (0.25)</b>	<b>\$ (2.22)</b>	<b>\$ (0.50)</b>	<b>\$ (0.50)</b>	<b>\$ (0.56)</b>	<b>\$ (0.50)</b>
<b>Net assets, end of period<sup>2 3</sup></b>	<b>\$ 16.46</b>	<b>\$ 15.01</b>	<b>\$ 12.39</b>	<b>\$ 11.62</b>	<b>\$ 12.55</b>	<b>\$ 12.14</b>
<b>Ratios and supplemental data</b>						
Net asset value <sup>4</sup> (thousands)	\$ 11,568	\$ 11,253	\$ 13,749	\$ 17,052	\$ 20,160	\$ 21,279
Units outstanding	702,942	749,740	1,109,959	1,467,453	1,606,525	1,753,184
Management expense ratio <sup>5</sup>	% 10.37	% 5.21	% 1.16	% 1.14	% 2.51	% 2.11
Management expense ratio before waivers or absorption	10.37	5.21	1.16	1.14	2.51	2.11
Portfolio turnover rate <sup>6</sup>	17.45	86.43	48.1	34.94	43.11	31.33
Trading expense ratio <sup>7</sup>	0.01	-	0.01	0.02	0.01	0.03
Net asset value per unit, end of period	\$ 16.46	\$ 15.01	\$ 12.39	\$ 11.62	\$ 12.55	\$ 12.14

## Notes

- The information is derived from the Fund's unaudited semi-annual and/or audited annual financial statements. All per unit figures presented are referenced to net assets determined in accordance to IFRS.
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- 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.

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

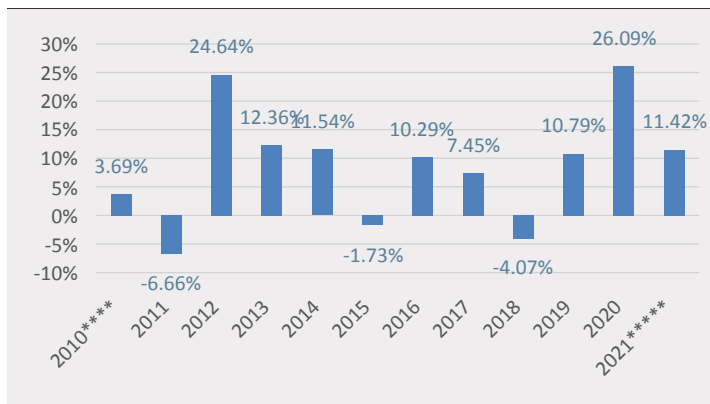
## Past Performance

The following charts and table show the past performance of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown assumes that cash distributions made by the Fund in the years/periods shown were reinvested in additional units of the Fund.

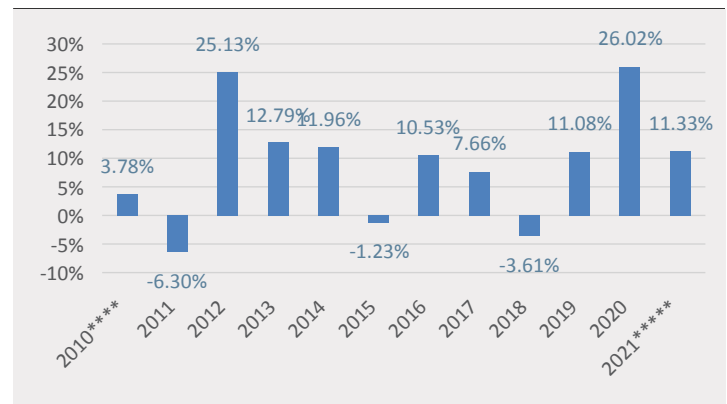
Prior to June 25, 2015, the Fund used a fund-on-fund investment strategy whereby the Fund gained exposure to Canso Credit Trust through a forward agreement. On June 25, 2015, as a result of changes to the Income Tax Act (Canada), CCIF changed its investment objectives, ceased to use a fund-on-fund strategy and began investing in securities directly. In addition, prior to July 1, 2020, the Fund paid servicing fees at 0.40% per annum on Class A units. On July 1, 2020, the Fund discontinued the payment of servicing fees. These changes could have affected the performance of the Fund or a class of units of the Fund had these changes been in effect throughout the performance measurement period.

## Year-by-Year Returns

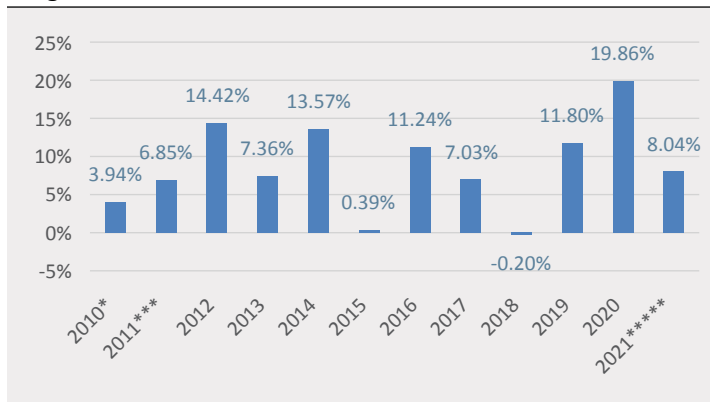
### Class A



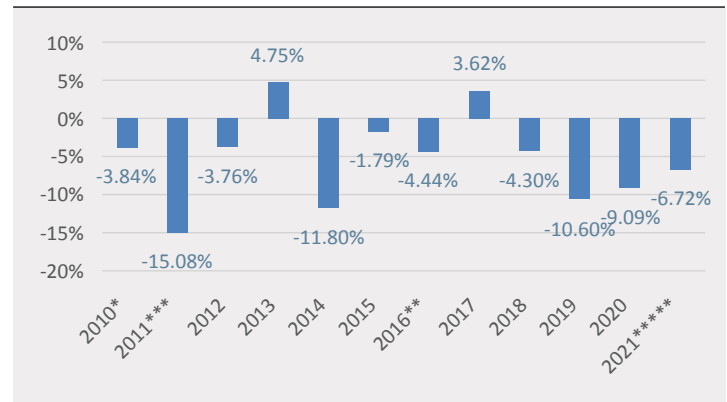
### Class F



### 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, \*\*\*\*\* For the period January 1 to June 30

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## Summary of Investment Portfolio

		% of NAV			% of NAV
<b>Top 25 Issuers</b>			<b>Asset Mix</b>		
Long positions:			Canadian Bonds - Corporate	%	74.4
Bombardier Inc. (Debt)	%	8.1	Foreign Bonds - Corporate		48.1
Air Canada (Debt)		6.4	Canadian Equities		20.6
Pembina Pipeline Corporation (Debt)		6.4	Canadian Government Debt - Short		(27.3)
Strait Crossing Development Inc. (Debt)		6.3	Foreign Government Debt - Short		(14.2)
Yellow Pages Limited (Equity)		6.0	Cash and Cash Equivalents		3.9
Boeing Co. (Debt)		5.6	Other Assets less Liabilities		(5.5)
Royal Bank of Canada (Debt)		5.5	<b>Total</b>	<b>%</b>	<b>100.0</b>
TC Energy Corporation (Debt)		5.4			
Cenovus Energy Inc. (Debt)		5.3			
Spirit Aerosystems Inc. (Debt)		4.8			
GE Capital Canada (Debt)		4.5			
Bank of Nova Scotia (Debt)		4.4			
American Airlines Inc (Debt)		4.3			
BCE Inc. (Equity)		4.2			
AT&T Inc. (Debt)		4.2			
Avis Budget Group, Inc. (Debt)		3.9			
Cash and Cash Equivalents		3.9			
Gannet Co., Inc. (Debt)		3.8			
Maxar Technologies Inc. (Debt)		3.6			
Occidental Petroleum Corp. (Debt)		3.5			
Hertz Global Holdings Inc. (Debt)		3.4			
Continental Resources, Inc. (Debt)		3.0			
Enbridge Inc. (Debt)		2.9			
Short positions:					
U.S. Treasury Bond (Debt)		(14.2)			
Government of Canada (Debt)		(27.2)			
<b>Total</b>	<b>%</b>	<b>68.0</b>			
Total Portfolio Long Positions	%	141.5			
Total Portfolio Short Positions		(41.5)			





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