

**Annual Management Report of Fund Performance**  
As at December 31, 2022

Lysander-Canso Balanced Fund



# Lysander-Canso Balanced 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 Balanced Fund (the “Fund”) contains financial highlights for the year ended December 31, 2022 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, 2022. 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 provide above average, long-term total returns consisting of both income and capital gains by investing primarily in a portfolio of fixed income securities and equities.

## 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 fixed income holdings are not restricted by credit ratings. Canso engages in opportunistic buying and selling of securities using a contrarian approach. Canso believes that it is able to access market segments and

exploit inefficiencies in the corporate bond market that are not available or apparent to most investors, due to its proprietary credit analysis and trading expertise. Canso also applies its credit analysis expertise to the selection of equity securities for the Fund.

Canso tends to take a “bottom up” approach to portfolio construction, focusing on security selection. The exposure to credit risk in the Fund will depend on the phase of the credit cycle and the bottom up valuation of individual securities. In the selection of equity securities for the Fund, Canso focuses on identifying companies trading below what Canso judges to be their intrinsic value. Some of the Fund’s portfolio positions will, under normal circumstances, be invested in securities of foreign issuers. It also may invest in debt securities convertible into common stock, and convertible and non-convertible preferred stock, and fixed income securities of governments, government agencies, supranational agencies and companies.

The Fund may hold all or a portion of its assets in cash or cash equivalents or invest in short term bonds or money market instruments in response to adverse market, economic and/or political conditions or for liquidity, defensive or other purposes. As a result, the Fund may not always be fully invested in accordance with its investment objectives. The Fund may invest up to 100% of its net 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.

# Lysander-Canso Balanced Fund

Annual Management Report of Fund Performance as at December 31, 2022

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## Results of Operations

During the year, Canso employed its bottom-up process to buy and sell securities for the Fund. The Fund's positioning and performance is consistent with the Fund's fundamental investment objective and strategies.

The Fund returns for the year ended December 31, 2022 were - 0.18% for Series A and 0.66% for Series F.

The net assets of the Fund were approximately \$46.0 million at December 31, 2022 from \$39.0 million at the beginning of the year. There were net subscriptions of approximately \$9.5 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 as described below.

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

## Recent Developments

The aggressive tightening of monetary policy around the world marks a complete turnaround from central bank policies of only a year ago. Policies put in place to support economies during the pandemic have now turned out to be major contributors to very high inflation. The year-over-year inflation numbers in North America and elsewhere are the highest in decades and central banks are moving to slow it down through interest rate hikes and a reversal of quantitative easing (QE).

QE involves the central banks buying their own country's government bonds to push down yields and put money directly into people's hands. QE is not a new approach to monetary policy but its scale reached records during the pandemic. It is not clear what will happen as central banks stop reinvesting maturing bonds and possibly start selling bonds they hold.

In this environment of high inflation, rising interest rates, and reduced liquidity, financial assets have not performed well. The big question is how much further the monetary and fiscal authorities have to go to get inflation under control. The risk of an economic recession continues to become more likely. This will be negative for unemployment and credit markets.

Canso is positioning the Fund increasingly conservatively. This helps to preserve capital in a market decline and makes it easier to take advantage of future investment opportunities.

During the second half of the year, the equity side of the portfolio increased both due to price appreciation and an active move increasing the equity side to 54.8% of the total fund. The Fund bought two new equities during the second half of the year, Meta Platforms and Magna. The Fund sold down some of its position in Cenovus and Ovintiv. The Fund also increased the weight in some of its existing positions such as Bombardier, Cineplex, Manulife, and Canfor Pulp.

On the fixed income side of the portfolio, the portfolio continued to be more conservative with larger weights in government securities but did transition the duration in the back half of the period with a return to a more neutral duration with the benchmark. Going forward the portfolio looks to benefit in a higher rate environment as its yield at the end of 2022 of 5.67% is a substantial increase over the 3.04% that it had at the start of 2022.

There were no changes to the membership of the Fund's Independent Review Committee ("IRC").

## Related Party Transactions

The Manager provides or arranges to provide 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 \$402,748 (including HST) in management fees to the Manager for the year ended December 31, 2022 (December 31, 2021 - \$354,470).

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. Portfolio management fees for the Portfolio Manager's services are paid from the management fee.

The Manager paid \$171,827 (including HST) to the Portfolio Manager for the year ended December 31, 2022 (December 31, 2021 - \$146,823).

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

# Lysander-Canso Balanced Fund

Annual Management Report of Fund Performance as at December 31, 2022

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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.

# Lysander-Canso Balanced Fund

Annual Management Report of Fund Performance as at December 31, 2022

## Financial Highlights

### Series A

Year ended	31-Dec-2022	31-Dec-2021	31-Dec-2020	31-Dec-2019	31-Dec-2018
<b>Net assets per unit<sup>1</sup></b>					
Net assets, beginning of year	\$ 18.82	\$ 16.24	\$ 15.22	\$ 13.29	\$ 16.47
Operations:					
Total revenue	0.56	0.43	0.38	0.43	0.42
Total expenses	(0.34)	(0.38)	(0.27)	(0.28)	(0.33)
Realized gains (losses)	1.22	3.72	(0.54)	(0.01)	1.49
Unrealized gains (losses)	(1.5)	1.67	1.06	1.73	(3.24)
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ (0.06)</b>	<b>\$ 5.44</b>	<b>\$ 0.63</b>	<b>\$ 1.87</b>	<b>\$ (1.66)</b>
Distributions:					
From income (excluding dividends)	\$ (0.02)	\$ -	\$ -	\$ -	\$ -
From dividends	(0.29)	(0.03)	(0.03)	(0.12)	(0.12)
From capital gains	(0.83)	(2.44)	-	-	(0.95)
<b>Total distributions<sup>2 3</sup></b>	<b>\$ (1.14)</b>	<b>\$ (2.47)</b>	<b>\$ (0.03)</b>	<b>\$ (0.12)</b>	<b>\$ (1.07)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$ 17.63</b>	<b>\$ 18.82</b>	<b>\$ 16.24</b>	<b>\$ 15.22</b>	<b>\$ 13.29</b>

<b>Ratios and supplemental data</b>					
Net asset value <sup>4</sup>	\$ 7,206,369	\$ 7,250,710	\$ 7,180,616	\$ 9,200,510	\$ 13,883,005
Units outstanding	408,850	385,358	442,094	604,680	1,044,425
Management expense ratio <sup>5</sup>	% 1.81	% 1.81	% 1.86	% 1.83	% 1.89
Management expense ratio before waivers or absorption	1.81	1.81	1.86	1.83	1.89
Portfolio turnover rate <sup>6</sup>	46.44	26.87	45.03	33.41	44.88
Trading expense ratio <sup>7</sup>	0.06	0.07	0.04	0.11	0.16
Net asset value per unit, end of year	\$ 17.63	\$ 18.82	\$ 16.24	\$ 15.22	\$ 13.29

### 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.

# Lysander-Canso Balanced Fund

Annual Management Report of Fund Performance as at December 31, 2022

## Series F

Year ended	31-Dec-2022	31-Dec-2021	31-Dec-2020	31-Dec-2019	31-Dec-2018
<b>Net assets per unit<sup>1</sup></b>					
Net assets, beginning of year	\$ 20.62	\$ 18.12	\$ 17.07	\$ 15.00	\$ 18.49
Operations:					
Total revenue	0.62	0.48	0.43	0.47	0.48
Total expenses	(0.2)	(0.25)	(0.17)	(0.18)	(0.21)
Realized gains (losses)	1.11	4.15	(0.68)	(0.18)	1.57
Unrealized gains (losses)	(1.32)	1.59	1.85	2.30	(3.95)
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ 0.21</b>	<b>\$ 5.97</b>	<b>\$ 1.43</b>	<b>\$ 2.41</b>	<b>\$ (2.11)</b>
Distributions:					
From income (excluding dividends)	\$ (0.02)	\$ (0.01)	\$ (0.04)	\$ (0.06)	\$ (0.02)
From dividends	(0.34)	(0.22)	(0.20)	(0.30)	(0.21)
From capital gains	(0.99)	(3.46)	-	-	(1.18)
<b>Total distributions<sup>2 3</sup></b>	<b>\$ (1.35)</b>	<b>\$ (3.69)</b>	<b>\$ (0.24)</b>	<b>\$ (0.36)</b>	<b>\$ (1.41)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$ 19.38</b>	<b>\$ 20.62</b>	<b>\$ 18.12</b>	<b>\$ 17.07</b>	<b>\$ 15.00</b>
<b>Ratios and supplemental data</b>					
Net asset value <sup>4</sup>	\$ 38,793,266	\$ 31,761,195	\$ 21,862,658	\$ 19,929,667	\$ 17,860,529
Units outstanding	2,002,016	1,540,426	1,206,364	1,167,823	1,190,381
Management expense ratio <sup>5</sup>	% 0.97	% 0.98	% 1.04	% 1.01	% 1.03
Management expense ratio before waivers or absorption	0.97	0.98	1.04	1.01	1.03
Portfolio turnover rate <sup>6</sup>	46.44	26.87	45.03	33.41	44.88
Trading expense ratio <sup>7</sup>	0.06	0.07	0.04	0.11	0.16
Net asset value per unit, end of year	\$ 19.38	\$ 20.62	\$ 18.12	\$ 17.07	\$ 15.00

## Notes

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- 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.
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# Lysander-Canso Balanced Fund

Annual Management Report of Fund Performance as at December 31, 2022

## Management Fees

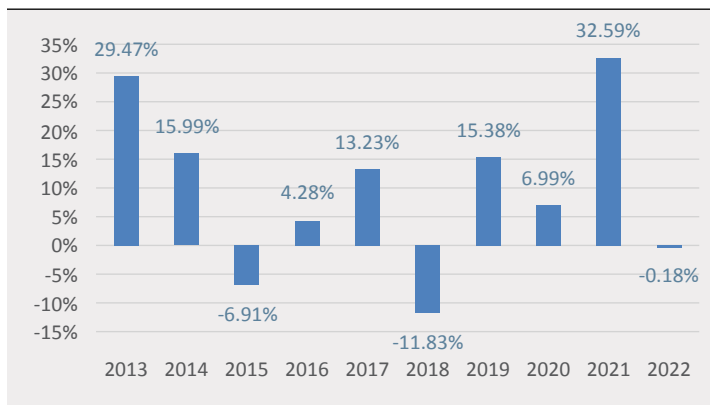
The Manager provides or arranges the provision of all general management and administrative services required by the Fund, and as described in the section “Related Party Transactions” above.

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 at a rate of 1.50% per annum for Series A units and at a rate of 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 50% of the management fee of Series A units, exclusive of applicable taxes.

## Year-by-Year Returns

### Series A

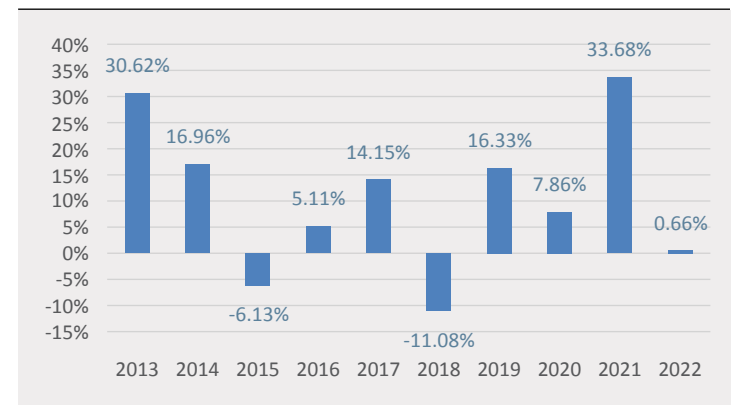


## Past Performance

The Fund became a reporting issuer on December 23, 2011. The commencement date of being distributed under a prospectus for Series A was December 28, 2011 and for Series F was December 23, 2011. Accordingly, returns are shown for the relevant period/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



# Lysander-Canso Balanced Fund

Annual Management Report of Fund Performance as at December 31, 2022

## Annual Compound Returns

The following table shows the Fund's annual compound return for each period indicated, compared with the Fund's index ("Index") which is 50% FTSE Canada All Corporate Bond Index and 50% MSCI World (CAD) Index. The FTSE Canada All Corporate Bond Index is divided into sub-indices based on credit rating: a combined AAA/AA sector, a single A sector, and a BBB sector. The MSCI World (CAD) Index captures large and mid cap representation across 24 Developed Markets countries. 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, 2022		1 Year	3 Year <sup>2</sup>	5 Year <sup>2</sup>	10 Year <sup>2</sup>
<b>Annual Compound Return</b>					
Series A <sup>1</sup>	%	(0.18)	% 12.29	% 7.57	% 9.05
Series F <sup>1</sup>		0.66	13.22	8.47	9.96
Index <sup>3 4</sup>	%	(11.15)	% 2.30	% 4.10	% 6.88

### 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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# Lysander-Canso Balanced Fund

Annual Management Report of Fund Performance as at December 31, 2022

## Summary of Investment Portfolio

		% of NAV			% of NAV
<b>Top 25 Issuers</b>			<b>Asset Mix</b>		
Cash and Cash Equivalents	%	8.1	Canadian Equities	%	29.2
Government of Canada (Debt)		7.2	Canadian Fixed Income		16.3
Cenovus Energy Inc (Equity)		4.1	Cash and Cash Equivalents		8.1
Manulife Financial Corp (Equity)		4.0	European Equities		8.8
Concentra Bank (Debt)		3.3	Foreign Fixed Income		8.1
Spirit Aerosystems Holdings In (Equity)		3.0	Inflation Bonds		0.6
Ishares (Debt)		2.8	Mortgage Backed Securities		4.2
BT Group PLC (Equity)		2.7	Options		2.8
Bombardier Inc. (Equity)		2.7	Other Assets less Liabilities		0.8
Enbridge Inc (Equity)		2.5	Preferred Shares		0.8
Apple Inc. (Equity)		2.4	Private Placements		4.3
Natwest Group Plc (Equity)		2.2	US Equities		16.0
Hertz Corp (Equity)		2.1	<b>Total</b>	<b>%</b>	<b>100.0</b>
The Kraft Heinz Co (Equity)		2.1	<b>Sector</b>		
Commerzbank Ag (Equity)		2.1	Cash and Cash Equivalents	%	8.1
Honda Canada Finance Inc (Debt)		2.0	Communication Services		9.8
Bird Construction Inc (Equity)		2.0	Consumer Discretionary		9.5
Yellow Pages Ltd Canada (Equity)		2.0	Consumer Staples		6.0
Meta Platforms Inc (Equity)		1.9	Energy		11.2
Unicredit Spa (Equity)		1.9	Financials		26.8
SNC-Lavalin Group Inc. (Equity)		1.8	Government		8.1
Verizon Communications Inc. (Equity)		1.7	Industrials		14.8
Ovintiv Inc (Equity)		1.6	Information Technology		3.9
Bank Of America Corp (Debt)		1.6	Materials		1.0
Linamar Corp (Equity)		1.6	Other Assets less Liabilities		0.8
<b>Total</b>	<b>%</b>	<b>69.4</b>	<b>Total</b>	<b>%</b>	<b>100.0</b>



3080 Yonge Street, Suite 3037  
Toronto, ON M4N 3N1  
[www.lysanderfunds.com](http://www.lysanderfunds.com)

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