

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

Lysander Balanced Income Fund



# Lysander Balanced Income Fund

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

## 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 (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 consists of a combination of fixed income securities and equity securities. Canso Investment Counsel Ltd. (“Canso”), as portfolio manager, is responsible primarily for the overall asset allocation and cash management of the fund’s portfolio.

Fixed income securities may include evidences of indebtedness of governments, government agencies, supranational agencies and companies, trusts and limited partnerships from anywhere in the world. Fixed income securities are selected based on a “bottom up” approach focusing on individual securities using an assessment of expected future return versus risk. The weight of any particular security in the Fund will also be based on an assessment of the security’s maximum downside in a bankruptcy or similar event. There are no limits on the percentage of the Fund’s fixed income portfolio that can be invested in securities rated below BBB by a rating agency or that are not rated.

Equity holdings may consist of equity securities from anywhere in the world. The investment approach is based on selecting a portfolio of stocks believed to meet a combination of qualitative fundamental selection criteria, attractive financial parameters and other positive attributes.

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.

## Results of Operations

During the year, the Portfolio Managers 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.

# Lysander Balanced Income Fund

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

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The Fund returns for the year were -5.62% for Series A and -9.33% for Series F.

The net assets of the Fund were approximately \$4.0 million at December 31, 2022 from approximately \$4.5 million at the beginning of 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

High inflation and rising interest rates hindered economic growth, and a worldwide slowdown gradually developed as the year progressed. Households experienced a loss of purchasing power and falling real disposable income. Confidence levels gradually fell to low readings. Fortunately, a strong labour market and rising household revenues partially compensated.

The elevated inflation and economic slowdown increasingly impacted companies, especially in the second half of the year. Many have been facing higher costs and stagnating demand. Aggregate profitability levels began to dip markedly late in the year.

In many countries, inflation actually peaked midyear 2022 and began to fade thereafter. Long-term interest rates steadied then in North America, stopping their rise. Again, the economic slowdown is the main reason. Also helping to subdue inflation have been the easing of the pandemic disruptions. The labour market became more balanced in certain industries while supply chains began to normalize. Less generous fiscal policies also contributed to easing costs pressures.

Central bankers in Europe, Canada, the United States, and many other countries, had adopted very easy monetary policies in 2020 at the onset of the COVID pandemic. They stayed the course throughout 2021 and finally moved away from their accommodative policies in 2022; after having overstimulated economies. Bond purchases programs were abandoned, and central bankers began raising, at a furious pace, their respective overnight rates. Playing catch-up, they are continuing to do so, despite lower inflation readings manifesting themselves, in order to slow down economic growth and weaken the strong labour market. The objective being to lower aggregate demand and reduce inflation.

The tight labour market in 2022 has led to higher unit labour costs. The positive employment situation lags economic conditions, however, is showing signs of reversing as we begin 2023. Key signs include routine layoffs and hiring freezes in some industries.

Russia invaded Ukraine in February 2022, claiming the country as its own. The impacts have been high energy prices in Europe and heightened geopolitical uncertainty. Fortunately, the military onslaught quickly faltered and has largely become a stalemate and war of attrition. As for the COVID pandemic, it gradually receded in the background as the year progressed.

Fund turnover was largely focused on reducing the exposure of the Fund to the expensive growth factor in the face of rising interest rates as well as the more cyclical names in financial sector while increasing the defensiveness of the holdings. As such, three expensive Information Technology names such as Renesas Electronics (Japan, semiconductors), Bill.com (United States, online bill payments) and Adyen (Netherlands, payments) were sold. In Financials, Goeasy (Canada, consumer lending), Fifth Third Bancorp (United States, regional banks) and Bank of Montreal (Canada, banks) were sold. On the defensive side, Hershey (United States, confectioner) Elevance Health (United States, managed care) and Saputo (Canada, dairy products) were purchased.

The aggressive tightening of monetary policy around the world marks a complete turnaround from central bank policies of a year ago. Policies put in place to support economies during the pandemic have turned out to be major contributors to 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.

The Fund is being managed increasingly conservatively. This

# Lysander Balanced Income Fund

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

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helps to preserve capital in a market decline and makes it easier to take advantage of future investment opportunities.

There was a change to the Fund's Portfolio Manager in December 2022, from Lysander Funds Limited. to Canso Investment Counsel Limited associated with the change in portfolio manager were a change in the investment objective and strategies of the Fund. More details are contained in the Fund's simplified prospectus.

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 \$34,957 (including HST) in management fees to the Manager for the year ended December 31, 2022 (December 31, 2021 - \$35,406).

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 \$17,420(including HST) to the Portfolio Manager for the year ended December 31, 2022 (December 31, 2021 - \$17,391).

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.

# Lysander Balanced Income 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	\$ 12.82	\$ 11.13	\$ 10.71	\$ 9.68	\$ 10.88
Operations:					
Total revenue	0.35	0.35	0.39	0.37	0.36
Total expenses	(0.24)	(0.25)	(0.22)	(0.22)	(0.22)
Realized gains (losses)	0.79	0.58	(0.32)	(0.22)	(0.34)
Unrealized gains (losses)	(1.62)	1.10	0.76	1.22	(0.84)
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ (0.72)</b>	<b>\$ 1.78</b>	<b>\$ 0.61</b>	<b>\$ 1.15</b>	<b>\$ (1.04)</b>
Distributions:					
From income (excluding dividends)	\$ (0.06)	\$ -	\$ (0.01)	\$ -	\$ -
From dividends	(0.07)	(0.09)	(0.16)	(0.12)	(0.17)
From capital gains	(0.47)	-	-	-	-
<b>Total distributions<sup>2 3</sup></b>	<b>\$ (0.60)</b>	<b>\$ (0.09)</b>	<b>\$ (0.17)</b>	<b>\$ (0.12)</b>	<b>\$ (0.17)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$ 11.49</b>	<b>\$ 12.82</b>	<b>\$ 11.13</b>	<b>\$ 10.71</b>	<b>\$ 9.68</b>
<b>Ratios and supplemental data</b>					
Net asset value <sup>4</sup>	\$ 6,580	\$ 6,972	\$ 6,010	\$ 5,686	\$ 5,080
Units outstanding	573	544	540	531	525
Management expense ratio <sup>5</sup>	% 1.99	% 1.98	% 1.99	% 1.94	% 1.96
Management expense ratio before waivers or absorption	7.05	2.39	2.61	2.77	3.14
Portfolio turnover rate <sup>6</sup>	84.97	56.99	119.60	34.10	61.10
Trading expense ratio <sup>7</sup>	0.18	0.13	0.10	0.20	0.20
Net asset value per unit, end of year	\$ 11.49	\$ 12.82	\$ 11.13	\$ 10.71	\$ 9.68

### 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 Balanced Income 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	\$ 12.85	\$ 11.15	\$ 10.73	\$ 9.70	\$ 10.88
Operations:					
Total revenue	0.32	0.35	0.39	0.37	0.36
Total expenses	(0.15)	(0.15)	(0.13)	(0.13)	(0.14)
Realized gains (losses)	0.68	0.59	(0.32)	(0.22)	(0.34)
Unrealized gains (losses)	(2.04)	1.11	0.83	1.03	(0.85)
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ (1.19)</b>	<b>\$ 1.89</b>	<b>\$ 0.77</b>	<b>\$ 1.05</b>	<b>\$ (0.97)</b>
Distributions:					
From income (excluding dividends)	\$ (0.09)	\$ (0.04)	\$ (0.04)	\$ -	\$ -
From dividends	(0.10)	(0.16)	(0.23)	(0.23)	(0.22)
From capital gains	(0.63)	-	-	-	-
<b>Total distributions<sup>2 3</sup></b>	<b>\$ (0.82)</b>	<b>\$ (0.20)</b>	<b>\$ (0.27)</b>	<b>\$ (0.23)</b>	<b>\$ (0.22)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$ 10.84</b>	<b>\$ 12.85</b>	<b>\$ 11.15</b>	<b>\$ 10.73</b>	<b>\$ 9.70</b>
<b>Ratios and supplemental data</b>					
Net asset value <sup>4</sup>	\$ 4,041,849	\$ 4,457,681	\$ 3,775,428	\$ 3,182,399	\$ 1,555,179
Units outstanding	372,723	347,005	338,516	296,473	160,298
Management expense ratio <sup>5</sup>	% 1.15	% 1.14	% 1.15	% 1.12	% 1.14
Management expense ratio before waivers or absorption	1.65	1.54	1.78	1.93	2.33
Portfolio turnover rate <sup>6</sup>	84.97	56.99	119.6	34.1	61.10
Trading expense ratio <sup>7</sup>	0.18	0.13	0.10	0.20	0.20
Net asset value per unit, end of year	\$ 10.84	\$ 12.85	\$ 11.15	\$ 10.73	\$ 9.70

## Notes

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# Lysander Balanced Income Fund

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

## Management Fees

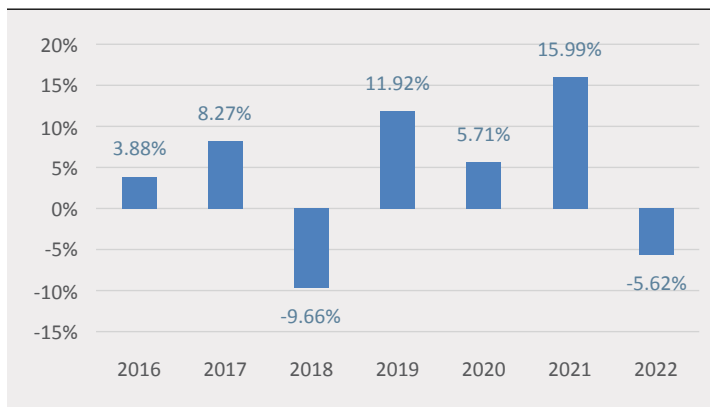
The Manager provides or arranges the provision of all general management and administrative services required by the Fund, and as described in the section “Related Party Transactions” above.

In consideration for such services, the Manager receives a monthly 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 approximately 50% of the management fee of Series A units.

## Year-by-Year Returns

### Series A

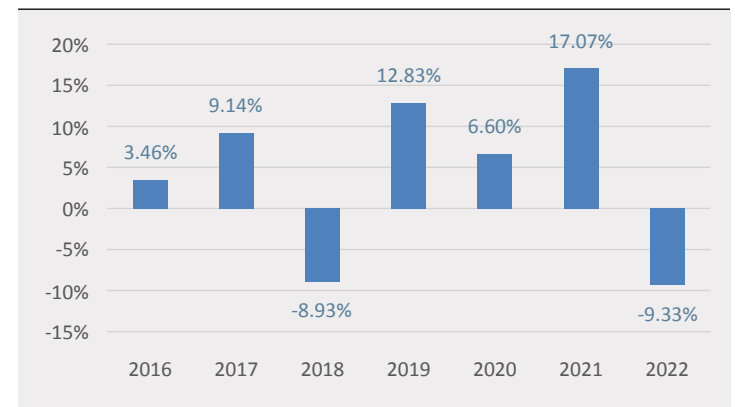


## Past Performance

The Fund became a reporting issuer on December 31, 2015. Accordingly, returns are shown for the relevant 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 Balanced Income 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>		Since Inception <sup>3</sup>
<b>Annual Compound Return</b>								
Series A <sup>1</sup>	%	(5.62)	%	4.99	%	3.19	%	4.00
Series F <sup>1</sup>		(9.33)		4.21		3.06		3.96
Index <sup>4</sup>	%	(11.15)	%	2.30	%	4.10	%	4.86

### 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.
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# Lysander Balanced Income 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>	
Canadian Government (Debt)	6.5	Asian Equities	2.4
Cash and Cash Equivalents	3.7	Canadian Equities	17.2
Air Canada (Debt)	3.6	Canadian Fixed Income	20.5
Scotia Capital (Debt)	2.0	Cash and Cash Equivalents	3.7
General Electric Co (Debt)	2.0	European Equities	3.9
Eli Lilly & Co (Equity)	2.0	Foreign Fixed Income	14.3
TC Energy Corp. (Equity)	1.8	Inflation Bonds	0.9
American Airlines Inc. (Debt)	1.8	International Equities	4.0
Bank Of Nova Scotia (Debt)	1.7	Mortgage Backed Securities	3.5
Manulife Financial Corp (Equity)	1.7	Other Assets less Liabilities	0.8
Spirit Aerosystems Inc (Debt)	1.6	Preferred Shares	6.3
BCE Inc. (Equity)	1.6	Private Placements	0.2
Avis Budget Car/Finance (Debt)	1.5	US Equities	22.3
Ford Credit Canada Co (Debt)	1.5	<b>Total</b>	<b>100.0</b>
Bombardier Inc. (Debt)	1.4	<b>Sector</b>	
Pacific Life Gf li (Debt)	1.4	Cash and Cash Equivalents	3.7
Uni-Select Inc (Equity)	1.3	Communication Services	5.9
Nav Canada (Debt)	1.2	Consumer Discretionary	17.5
Sun Life Financial Inc (Equity)	1.2	Consumer Staples	16.5
Loblaw Companies Limited (Equity)	1.2	Energy	6.9
Computershare Ltd (Equity)	1.1	Financials	20.8
Definity Financial Corp (Equity)	1.1	Government	7.7
Murphy Usa Inc (Equity)	1.1	Health Care	0.7
Intact Financial Corp (Equity)	1.1	Industrials	11.4
Canadian Imperial Bank of Commerce (Debt)	1.1	Information Technology	3.2
<b>Total</b>	<b>46.2</b>	Materials	2.9
		Other Assets less Liabilities	0.8
		Utilities	2.0
		<b>Total</b>	<b>100.0</b>



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