

**Annual Management Report of Fund Performance**  
As at December 31, 2016

Lysander-Canso Balanced Fund



# Lysander-Canso Balanced Fund

Annual Management Report of Fund Performance as at December 31, 2016

## 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, 2016 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, 2016. 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 us at Lysander Funds Limited, 100 York Boulevard Suite 501, Richmond Hill Ontario, L4B 1J8, 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 us 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 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 (“Portfolio Manager” or “Canso”). The Fund’s fixed income holdings are not restricted by credit ratings. The Fund’s Portfolio Manager is Canso Investment Counsel (“Portfolio Manager” or “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 or its amendments.

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## Results of Operations

During the period Canso employed its bottom-up process to buy and sell securities for the Fund. The allocation of the Fund to equities and preferred shares rose to 77% as equities performed strongly during the period with the allocation to bonds, other fixed income securities and cash and cash equivalents declining to 23%. Both the equity and the bond components of the Fund continue to have a significant weight in the securities of foreign issuers.

The surprise outcome of the U.S. Presidential election in the fourth quarter triggered a rally in equities. Bond yields rose on the prospects of higher fiscal spending, lower taxes and lighter financial regulation proposed by the incoming President. A recovery in commodity stocks caused the S&P/TSX Index to continue its strong performance for the year. It rose 10.2% in the second half of the year.

The Fund produced a strong positive return in the period of 4.3% for Series A and 5.1% for Series F. The Fund's holdings in equity Imvescor and Manulife were both up more than 30% in the period. The rise in interest rates was positive for Manulife stock as reinvestment rates improved for their long duration assets. Additionally, the insurer benefited from the strong equity market returns. The Fund's holding in Bombardier equity also moved up as the company provided an upbeat guidance for next year. They also accessed the public markets to raise funds to redeem upcoming bond maturities. Bombardier's future success is now more assured based on the successful performance of its CSeries aircraft.

In the fixed income portion of the portfolio the Fund benefitted from strength in Bombardier, Enbridge, and Teck Resources.

This positioning and performance is entirely consistent with the Fund's fundamental investment objective and strategies. The net assets of the Fund decreased to \$55.3 million at December 31, 2016 from \$80.4 million at the beginning of the period. This was mainly due to redemptions of \$32.6 million in the period.

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.

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

## Recent Developments

In the equity portion of the Fund, Canso continues to evaluate and hold equities on a case-by-case basis based on its research,

without regard for the Fund's positioning versus broad market indexes. The objective is to hold equities that are attractively priced in the market relative to Canso's view of their long-term intrinsic value. New equity positions in the Fund during the period include Empire Co. Inc. Canso purchased the equity of Empire Co. as their subsidiary, Sobey's, ran into operational and integration problems related to the acquisition of Safeway Canada from three years ago. This has resulted in declining profitability and an increase in leverage ratios. As the company reported disappointing quarterly results, they were downgraded to below investment grade by some of the bond rating agencies. Canso believes that the company's stock price already reflects much of the market worries. Sobey's remains the second largest food retailer in Canada with a recognizable brand suite and a supportive controlling shareholder. In addition, the company is taking steps to address its problems, including bringing in a new CEO.

Canso continues to believe that Canadian interest rates need to rise in order to normalize versus inflation. They are therefore positioning the fixed income portion of the Fund conservatively from an interest rate perspective by increasingly holding bonds with shorter maturities and with high credit quality. Canso is also adding floating rate notes where the coupon payments change according to the level of short term interest rates as benchmarked by the Canadian Dollar Offered Rate (CDOR).

The Fund's future performance will be affected by the future direction of equity markets and by future changes in the level of interest rates and by changes to the additional yield provided by corporate bonds over Government of Canada bonds. But the degree to which these future changes occur are highly uncertain.

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 changes to the membership of the Fund's Independent Review Committee ("IRC"). Merri Jones resigned on November 28, 2016 and on January 31, 2017, Ruth Gould was appointed as an IRC member.

## 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

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calculated based on a percentage of the net asset value of the Fund as disclosed in the simplified prospectus.

The Fund paid \$867,865 (including HST) in management fees to the Manager for the period ended December 31, 2016 (December 31, 2015 - \$1,167,241).

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 paid \$265,570 (including HST) to the Portfolio Manager for the period ended December 31, 2016 (December 31, 2015 - \$348,585)

The Fund did not rely on any approval, positive recommendation or standing instruction from its IRC with respect to any related party transactions.

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## Financial Highlights

### Series A

Period ended	31-Dec-16	31-Dec-15	31-Dec-14	31-Dec-13	31-Dec-12
<b>Net assets per unit<sup>1</sup></b>					
Net assets, beginning of year	\$ 14.53	\$ 16.43	\$ 14.20	\$ 10.99	\$ 9.27
Operations:					
Total revenue	0.28	0.30	0.33	0.41	0.35
Total expenses	(0.25)	(0.29)	(0.30)	(0.25)	(0.22)
Realized gains (losses)	0.34	1.00	0.11	-	(0.03)
Unrealized gains (losses)	(0.26)	(2.28)	2.08	4.34	2.41
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ 0.11</b>	<b>\$ (1.27)</b>	<b>\$ 2.22</b>	<b>\$ 4.50</b>	<b>\$ 2.51</b>
Distributions:					
From income (excluding dividends)	\$ -	\$ -	\$ -	\$ -	\$ (0.02)
From dividends	(0.04)	(0.02)	(0.07)	(0.06)	(0.10)
From capital gains	(0.39)	(0.72)	-	-	0.26
<b>Total Distributions<sup>2 3</sup></b>	<b>\$ 0.44</b>	<b>\$ (0.74)</b>	<b>\$ (0.07)</b>	<b>\$ (0.06)</b>	<b>\$ 0.14</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$ 14.57</b>	<b>\$ 14.53</b>	<b>\$ 16.43</b>	<b>\$ 14.20</b>	<b>\$ 10.97</b>

<b>Ratios and supplemental data</b>					
Net asset value <sup>4</sup>	\$ 31,893,689	\$ 51,271,770	\$ 47,909,449	\$ 813,042	\$ 166,572
Units outstanding	2,189,164	3,529,044	2,915,553	572,554	15,190
Management expense ratio <sup>5</sup>	% 1.77	% 1.82	% 1.88	% 1.96	% 2.13
Management expense ratio before waivers or absorption	1.77	1.82	1.88	2.65	3.73
Portfolio turnover rate <sup>6</sup>	22	29	12	8	20
Trading expense ratio <sup>7</sup>	0.1	0.2	0.2	0.3	-
Net asset value per unit, end of year	\$ 14.57	\$ 14.53	\$ 16.43	\$ 14.20	\$ 10.97

### Notes

- The information is derived from the Fund's audited annual financial statements. All per unit figures presented in the 2016, 2015, 2014 and 2013 periods (if applicable) are referenced to net assets determined in accordance to IFRS. All other comparatives periods are based on Canadian GAAP (if applicable).
- Net assets and distributions are based on the actual numbers of units outstanding at the relevant time. The increase (decrease) in 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

Period ended	31-Dec-16	31-Dec-15	31-Dec-14	31-Dec-13	31-Dec-12
<b>Net assets per unit<sup>1</sup></b>					
Net assets, beginning of year	\$ 16.31	\$ 18.37	\$ 15.80	\$ 12.20	\$ 10.66
Operations:					
Total revenue	0.31	0.33	0.36	0.26	0.29
Total expenses	(0.16)	(0.18)	(0.19)	(0.15)	(0.13)
Realized gains (losses)	0.42	1.07	0.11	-	(0.08)
Unrealized gains (losses)	(0.13)	(2.49)	2.31	4.09	2.00
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ 0.44</b>	<b>\$ (1.27)</b>	<b>\$ 2.59</b>	<b>\$ 4.20</b>	<b>\$ 2.08</b>
Distributions:					
From income (excluding dividends)	\$ -	\$ -	\$ -	\$ (0.01)	\$ (0.05)
From dividends	(0.18)	(0.03)	(0.12)	(0.13)	(0.11)
From capital gains	(0.56)	(1.02)	-	-	0.08
<b>Total Distributions<sup>2 3</sup></b>	<b>\$ (0.74)</b>	<b>\$ (1.05)</b>	<b>\$ (0.12)</b>	<b>\$ (0.14)</b>	<b>\$ (0.08)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$ 16.34</b>	<b>\$ 16.31</b>	<b>\$ 18.37</b>	<b>\$ 15.80</b>	<b>\$ 12.17</b>
<b>Ratios and supplemental data</b>					
Net asset value <sup>4</sup>	\$ 23,436,852	\$ 29,199,344	\$ 22,293,217	\$ 9,137,123	\$ 2,269,810
Units outstanding	1,434,467	1,789,993	1,213,418	578,238	186,542
Management expense ratio <sup>5</sup>	% 0.97	% 0.97	% 1.04	% 1.09	% 1.13
Management expense ratio before waivers or absorption	0.97	0.97	1.04	2.1	4.1
Portfolio turnover rate <sup>6</sup>	22	29	12	8	20
Trading expense ratio <sup>7</sup>	0.1	0.2	0.2	0.3	-
Net asset value per unit, end of year	\$ 16.34	\$ 16.31	\$ 18.37	\$ 15.80	\$ 12.17

## Notes

- The information is derived from the Fund's audited annual financial statements. All per unit figures presented in the 2016, 2015, 2014 and 2013 periods (if applicable) are referenced to net assets determined in accordance to IFRS. All other comparatives periods are based on Canadian GAAP (if applicable).
- Net assets and distributions are based on the actual numbers of units outstanding at the relevant time. The increase (decrease) in 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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## Management Fees

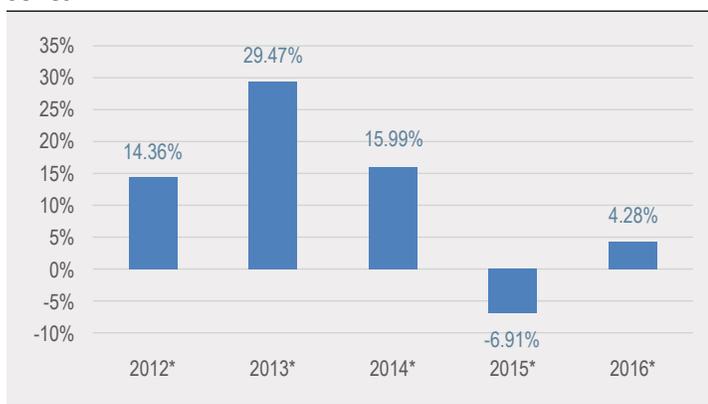
The Manager provides or arranges the provision of all general management and administrative services required by the Fund, and as described in the section “Related Party Transactions” above.

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 of 1.50% per annum for Series A units and 0.75% per annum for Series F units.

Service fees or trailing commissions of a maximum of 0.75% 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

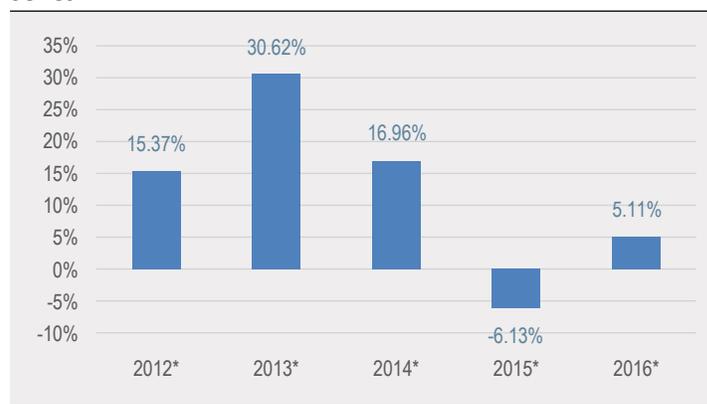


## Past Performance

The Fund became a reporting issuer on December 23, 2011. The commencement of operations as a reporting issuer for Series A was December 28, 2011 and for Series F was December 23, 2011. Accordingly, returns are shown for the relevant periods 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



\* For the period January 1 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 Fund's index ("Index" which is 50% FTSE TMX Canada All Corporate Bond Index and 50% MSCI World (CAD) Index. The FTSE TMX 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, 2016		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>	%	4.28	%	4.03	%	10.76	%	11.17
Series F <sup>1</sup>		5.11		4.89		11.70		11.97
Index <sup>3 4</sup>	%	4.39	%	8.08	%	9.32	%	10.43

### 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 28, 2011 to December 31, 2016 (Series A) and from December 23, 2011 to December 31, 2016 (Series F). 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>		
Yellow Pages Digital & Media Solutions Ltd (Equity)	%	8.2	Canadian Equities	%	38.9
SLM Corp (Equity)		6.7	Canadian Fixed Income		16.4
Bombardier Inc. (Equity)		6.6	Foreign Equities		38.4
Royal Bank of Scotland (Equity)		6.5	Foreign Fixed Income		6.0
Manulife (Equity)		6.3	Other assets less liabilities		0.3
Commerzbank AG (Equity)		6.2	<b>Total</b>	<b>%</b>	<b>100.0</b>
Apple Inc. (Equity)		6.2	<b>Sector Mix</b>		
Invescor Restaurant Group (Equity)		5.3	Communication	%	7.6
Potash Corp (Equity)		4.5	Consumer Discretionary		15.1
Wal-Mart Stores Inc. (Equity)		3.8	Consumer Staples		8.3
Purch Group Inc. (Equity)		3.5	Energy		5.3
Nintendo Co Ltd (Equity)		3.2	Federal		3.1
Second Cup (Equity)		2.5	Financials		34.9
Unicredit SPA (Equity)		2.3	Industrials		12.4
Empire Co LTD (Equity)		2.0	Information Technology		6.2
Torstar Corp. (Equity)		1.6	Infrastructure		1.5
Royal Bank of Canada (Debt)		1.4	Materials		4.5
TransCanada Pipeline (Debt)		1.3	Other assets less liabilities		0.3
Bombardier Inc. (Debt)		1.3	Provincial		0.3
Navient Corp (Foreign Fixed Income)		1.1	Real Estate		0.5
ClearStream Energy Services Inc. (Equity)		1.1	<b>Total</b>	<b>%</b>	<b>100.0</b>
Shaw Communications Inc (Debt)		1.1			
MCAP Service NHA MBS (98001252) (Debt)		1.0			
Yellow Pages Digital & Media Solutions Ltd (Debt)		1.0			
Unicredit SPA (Debt)		0.9			
<b>Total</b>	<b>%</b>	<b>85.6</b>			



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