

Annual Management Report of Fund Performance
As at December 31, 2017

Lysander-Canso U.S. Credit 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 U.S. Credit Fund (the “Fund”) contains financial highlights for the year ended December 31, 2017 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, 2017. 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 or at SEDAR at 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 achieve long term capital growth of returns consisting of income and some capital gains primarily through investments in U.S. debt and money market securities either denominated in U.S. dollars or hedged to U.S. dollars using forward currency contracts.

Investment Strategies

The Fund’s portfolio manager is Canso Investment Counsel (“Portfolio Manager” or “Canso”). The Fund’s portfolio positions will primarily be invested in fixed income securities, including those of foreign issues. The Fund will not be leveraged. More details are contained in the Fund’s simplified prospectus.

During the year Canso employed its bottom-up process to buy and sell securities for the Fund.

Unless otherwise noted, all dollar amounts and returns in this document are expressed in USD.

Risks

On December 21, 2017, the Manager decreased the risk rating of the Fund from “low-to-medium” to “low” in accordance with the new standardized methodology for classifying fund volatility mandated by the Canadian Securities Administrators. Please refer to the Fund’s most recent simplified prospectus or its amendments.

Results of Operations

The Fund has positive returns for the year of 3.9% for Series A and 4.5% for Series F.

This positioning and performance is entirely consistent with the Fund’s fundamental investment objective and strategies. The net assets of the Fund increased to \$28.3 million at December 31, 2017 from \$15.9 million at the beginning of the year. This increase was mainly due to subscriptions of \$22.2 million offset by redemptions of \$10.6 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.

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

Recent Developments

Bond returns varied significantly in 2017 based on term to maturity. Long term bonds performed well as their yields declined, while short term bonds lagged as their yields tended to rise. Despite the historic tax overhaul bill passed by the U.S. Congress, yields on longer term Treasury bonds remained stubbornly low. The Federal Reserve raised interest rates three times in the year and signaled that further tightening is expected in 2018. The Fed believes that the labour market has strengthened and economic activity has been rising at a strong pace. They expect inflation to stabilize around its 2% objective over the medium term.

The Bank of Canada increased its “Key Interest Rate” twice in the year and signaled that further rate increases were in store in 2018. The Canadian economy performed well, with the unemployment rate falling to a 40 year low. Corporate bonds remained attractive for investors as the combination of higher running yields and spread tightening caused corporate bonds to outperform Government issues.

Canso believes the U.S. economy is demonstrating strong job gains and improving household spending. The weakness in the U.S. dollar and tax cuts should benefit corporations. Protectionist policies proposed by the new U.S. government may lead to weakness in emerging markets. The economic outlook in Europe is also showing optimism. Canso remains concerned about consumer debt levels and stretched house prices in Canada. The recent measures introduced by the government to control the ‘frothy’ housing market are timely but may erode the valuation of the single largest asset in Canadian households. Canadian households are vulnerable to a sharp rise in interest rates and an increase in unemployment. Additional uncertainties to the economy arise from Ontario’s minimum wage hike and the North American Free Trade Agreement (NAFTA) negotiations. However, the Canadian dollar has responded positively to the strength in oil prices and to a declining spread between Canadian and U.S. interest rates.

The largest purchases in the year were of high quality floating rate notes and senior short term fixed rate notes of Canadian banks. Canso has been deliberately increasing the credit quality of the bond positions in the Fund, believing that the additional yield offered on lower quality credits has declined to the point where it is unattractive in most cases. This led to sales of lower rated issues such as Bombardier and Navient, where Canso believes the bonds are fully valued. At year-end, the Fund’s weight in issues rated below BBB declined to 20% from 51% at the beginning of the year.

Canso also believes there is significant price risk in longer maturity bonds from the prospect of rising interest rates. This risk has been moderated by concentrating the portfolio in bonds with short maturities and floating rate notes. At year-end, the Fund was 52% invested in floating rate notes.

There were changes to the membership of the Fund’s Independent Review Committee (“IRC”). 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 calculated based on a percentage of the net asset value of the Fund as disclosed in the simplified prospectus.

The Fund paid USD \$218,347 (including HST) in management fees to the Manager for the year ended December 31, 2017 (December 31, 2016 - USD \$112,982).

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 CAD \$116,256 (including HST) to the Portfolio Manager for the year ended December 31, 2017 (December 31, 2016 - CAD \$65,077).

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*

Year ended	31-Dec-2017 (USD)		31-Dec-2016 (USD)		31-Dec-2015 (USD)	
Net assets per unit ¹						
Net assets, beginning of year	\$	9.59	\$	8.95	\$	10.00
Operations:						
Total revenue		0.36		0.49		0.43
Total expenses		(0.16)		(0.15)		(0.16)
Realized gains (losses)		0.09		(0.42)		0.20
Unrealized gains (losses)		0.08		0.91		(0.98)
Total increase (decrease) from operations²	\$	0.36	\$	0.83	\$	(0.51)
Distributions:						
From income (excluding dividends)	\$	(0.18)	\$	(0.21)	\$	(0.31)
From dividends		-		-		-
From capital gains		-		-		(0.12)
Total distributions^{2 3}	\$	(0.18)	\$	(0.21)	\$	(0.43)
Net assets, end of year^{2 3}	\$	9.78	\$	9.59	\$	8.95

Ratios and supplemental data						
Net asset value ⁴	\$	2,821,663	\$	2,487,986	\$	3,102,035
Units outstanding		288,432		259,447		346,465
Management expense ratio ⁵	%	1.66	%	1.70	%	1.71
Management expense ratio before waivers or absorption		1.66		1.72		1.75
Portfolio turnover rate ⁶		53		69		46
Trading expense ratio ⁷		-		-		-
Net asset value per unit, end of year	\$	9.78	\$	9.59	\$	8.95

Notes

* The Fund became a reporting issuer on December 30, 2014 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) 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.

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 F*

Year ended	31-Dec-2017 (USD)		31-Dec-2016 (USD)		31-Dec-2015 (USD)	
Net assets per unit ¹						
Net assets, beginning of year	\$	9.47	\$	8.99	\$	10.00
Operations:						
Total revenue		0.35		0.49		0.43
Total expenses		(0.11)		(0.11)		(0.11)
Realized gains (losses)		0.09		(0.37)		0.19
Unrealized gains (losses)		0.06		0.81		(0.95)
Total increase (decrease) from operations²	\$	0.39	\$	0.82	\$	(0.44)
Distributions:						
From income (excluding dividends)	\$	(0.24)	\$	(0.42)	\$	(0.29)
From dividends		-		-		-
From capital gains		-		-		(0.12)
Total distributions^{2 3}	\$	(0.24)	\$	(0.42)	\$	(0.41)
Net assets, end of year^{2 3}	\$	9.66	\$	9.47	\$	8.99
Ratios and supplemental data						
Net asset value ⁴	\$	25,484,068	\$	13,420,052	\$	8,901,735
Units outstanding		2,637,839		1,416,951		989,684
Management expense ratio ⁵	%	1.09	%	1.13	%	1.15
Management expense ratio before waivers or absorption		1.09		1.15		1.17
Portfolio turnover rate ⁶		53		69		46
Trading expense ratio ⁷		-		-		-
Net asset value per unit, end of year	\$	9.66	\$	9.47	\$	8.99

Notes

* The Fund became a reporting issuer on December 30, 2014 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) 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.

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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Management Fees

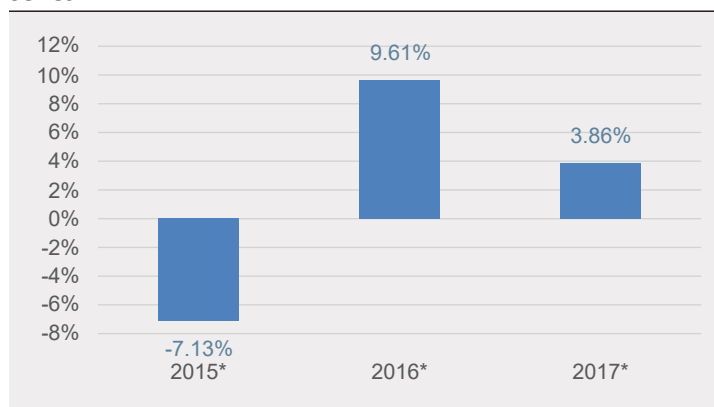
The Manager provides or arranges the provision of all general management and administrative services required by the Fund, and as described in the section “Related Party Transactions” above.

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 1.25% per annum for Series A units and 0.75 % per annum for Series F units.

Service fees or trailing commissions of a maximum of 0.50% 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

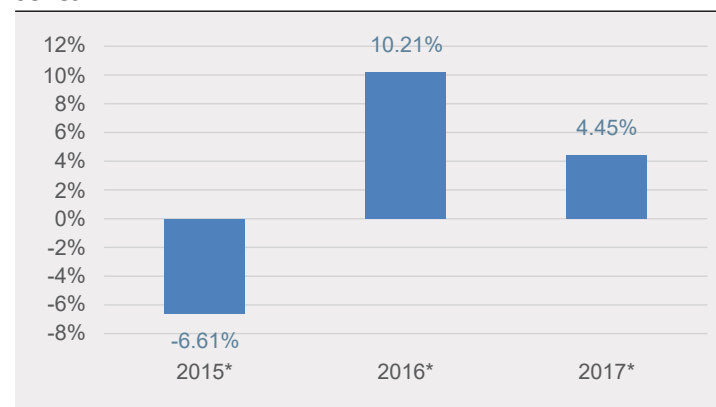


Past Performance

The commencement of operations as a reporting issuer for Series A and F was December 30, 2014. Accordingly, returns are shown for the relevant year 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 Merrill Lynch US Corporate Master-Total Return Index (the "Index"). 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, 2017		1 Year		3 Year ²		Since Inception ³
Annual Compound Return						
Series A ¹	%	3.86	%	1.87	%	1.87
Series F ¹		4.45		2.44		2.44
Merrill Lynch US Corporate Master-Total Return Index ³	%	6.48	%	3.88	%	3.92

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 Period from December 30, 2014 to December 31, 2017. Since inception returns are annualized.

³ MERRILL LYNCH IS LICENSING THE MERRILL LYNCH INDICES "AS IS," MAKES NOT WARRANTIES REGARDING SAME, DOES NOT GUARANTEE THE QUALITY, ACCURACY AND/OR COMPLETENESS OF THE MERRILL LYNCH INDICES OR ANY DATA INCLUDED THEREIN OR DERIVED THEREFROM, AND ASSUMES NO LIABILITY IN CONNECTION WITH THEIR USE.

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Summary of Investment Portfolio

% of NAV			% of NAV		
Top 25 Issuers			Asset Mix		
GE Capital Canada	%	9.3	Cash and cash equivalents	%	2.4
Apple Inc.		9	U.S. Fixed Income		65.2
JP Morgan Chase & Co.		8.9	Canadian Fixed Income		28.0
Goldman Sachs		8.8	Canadian Equities		1.1
Toronto Dominion Bank		8.3	Foreign Fixed Income		2.9
Morgan Stanley		8.1	Other assets less liabilities		0.4
MetLife Global Funding		7.9	Total	%	100.0
Royal Bank of Canada		7.4	Sector		
Bank of America Corp.		7.1	Cash and cash equivalents	%	2.4
Navient Corp		4.4	Communication		14.3
Bombardier Inc.		2.8	Energy		3.8
Cash and cash equivalents		2.4	Financials		74.0
Sobeys Inc.		2.2	Industrials		5.2
Royal Bank of Scotland		1.8	Other assets less liabilities		0.4
TransCanada Pipelines		1.6	Total	%	100.0
Clearstream Energy Services Inc.		1.2			
Yellow Pages Digital & Media Solutions Ltd		1.2			
XplorNet Communications Inc. (Equity)		1.1			
Commerzbank AG		1.1			
Enbridge Inc.		1.0			
CIT Group Inc.		0.9			
Black Press Group Ltd		0.7			
Postmedia Network Inc.		0.7			
Videotron Ltee		0.6			
Purch Group Inc.		0.6			
Total	%	99.1			



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