

**Annual Management Report of Fund Performance**  
As at December 31, 2018

Lysander-Canso Balanced Fund



# Lysander-Canso Balanced Fund

Annual Management Report of Fund Performance as at December 31, 2018

## 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, 2018 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, 2018. 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, 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 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”). 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.

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## Results of Operations

The Fund had returns for the year of -11.83% for Series A and -11.08% for Series F.

This positioning and performance is consistent with the Fund's fundamental investment objective and strategies. The net assets of the Fund decreased to approximately \$31.7 million at December 31, 2018 from \$41.2 million at the end of the prior year. This was partially due to net redemptions of \$5.1 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.

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

## Recent Developments

Equity markets struggled with higher interest rates in the first quarter as the US Federal Reserve raised rates citing the continued strength in the labour market. The Bank of Canada followed suit with its own hike in January. Bond market returns were negative as a result early in the quarter, but yields settled back somewhat in March. Corporate bonds modestly underperformed Canada bonds as spreads widened.

The upward trajectory in yields reversed course in June as Canada, the EU and Mexico retaliated against the US steel and aluminum tariffs imposed by the Trump administration. Markets feared a global trade war with US tariffs on Chinese goods (and vice versa) set to begin in July. The Bank of Canada remained on hold in the quarter while the Federal Reserve continued to push US administered rates higher. In this environment, long Government bonds outperformed and credit spreads widened slightly but the higher yield of corporates allowed them to match the return of the Canada index.

Interest rates continued to creep higher in the third quarter even though the drama with the NAFTA negotiations moderated their increase. The Canadian Government seemed immensely relieved to have a tentative deal on the new NAFTA, called USMCA. This agreement was reached right at the US imposed deadline. Meanwhile, the US Federal Reserve raised rates and remained open about their desire to push rates back to "normal" levels. This makes sense, given that the US economy is booming from tax cuts, Government spending, and the fact that interest rates are still low versus inflation. Third quarter bond returns were mostly negative. Corporate bonds fared better as

credit spreads tightened and they have an overall shorter duration than the broader market index.

A nasty confluence of events pushed equity markets sharply lower in the fourth quarter. The US Federal Reserve continued to raise administered interest rates, which is broadly negative for asset prices. There are also signs of an economic slowdown, based on surveys of manufacturing company executives. Trade tensions between the US and China contributed to this. Finally, equity markets seemed to come to the realization that many stocks, especially in the technology sector, were expensive. Falling equity markets caused investors to shift into Government bonds in the quarter. This drove their yields down and led to Government of Canada bonds being the strongest performers in the Canadian bond market.

The very strong performance of Canada bonds in the fourth quarter reversed their year-to-date trend and caused them to be the best performers for the year. Wider credit spreads in the quarter caused Corporate bonds to underperform the broader bond market for the year. Lower quality bonds were the worst performers, with many high yield issues falling in price and even investment grade BBB rated bonds seeing somewhat higher yields.

Equity markets experienced a very volatile end to the year with significant declines in December. In the first half of the year, Canso continued to decrease the equity weight in the Fund from 71% to 61% and remained around that level for the rest of the year. The largest equity sale of the year was Imvescor which was sold after MTY Foods announced that they would be acquiring the business. New names bought in the portfolio this year included Bayer AG, Corus Entertainment, Enbridge Energy Partners LP, General Electric, and Maxar Technologies. Enbridge Energy Partners LP was later bought in an all share deal by its parent company Enbridge Inc. BZ Holdings (formerly known at Purch) preferred share was 55% redeemed by the company after an asset sale.

On the fixed income side, the Portfolio Manager continued to increase credit quality during the year and took advantage of spread widening in Q4 to deploy on some attractive opportunities in the Fund's portfolio. New opportunities came in names such as SES SA, General Electric, and UniCredit. Bombardier 2025's bonds were sold out of the Fund completely early in the year and were re-established at significantly lower levels in late November/December. The Fund continues to maintain a high weight in high quality floating rate bonds.

There have been no changes to the Manager or Portfolio Manager, or change of control of the Manager, or of the Fund.

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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 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 \$485,671 (including HST) in management fees to the Manager for the year ended December 31, 2018 (December 31, 2017 - \$584,880).

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 \$165,672 (including HST) to the Portfolio Manager for the year ended December 31, 2018 (December 31, 2017- \$188,779)

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

### Series A

Year ended	31-Dec-2018	31-Dec-2017	31-Dec-2016	31-Dec-2015	31-Dec-2014
<b>Net assets per unit<sup>1</sup></b>					
Net assets, beginning of year	\$ 16.47	\$ 14.57	\$ 14.53	\$ 16.43	\$ 14.20
Operations:					
Total revenue	0.42	0.30	0.28	0.30	0.33
Total expenses	(0.33)	(0.29)	(0.25)	(0.29)	(0.30)
Realized gains (losses)	1.49	0.12	0.34	1.00	0.11
Unrealized gains (losses)	(3.24)	1.63	(0.26)	(2.28)	2.08
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ (1.66)</b>	<b>\$ 1.76</b>	<b>\$ 0.11</b>	<b>\$ (1.27)</b>	<b>\$ 2.22</b>
Distributions:					
From income (excluding dividends)	\$ -	\$ -	\$ -	\$ -	\$ -
From dividends	(0.12)	(0.01)	(0.04)	(0.02)	(0.07)
From capital gains	(0.95)	(0.01)	(0.40)	(0.72)	-
<b>Total distributions<sup>2 3</sup></b>	<b>\$ (1.07)</b>	<b>\$ (0.02)</b>	<b>\$ (0.44)</b>	<b>\$ (0.74)</b>	<b>\$ (0.07)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$ 13.29</b>	<b>\$ 16.47</b>	<b>\$ 14.57</b>	<b>\$ 14.53</b>	<b>\$ 16.43</b>

<b>Ratios and supplemental data</b>					
Net asset value <sup>4</sup>	\$ 13,883,005	\$ 20,649,347	\$ 31,893,689	\$ 51,271,770	\$ 47,909,449
Units outstanding	1,044,425	1,253,517	2,189,164	3,529,044	2,915,553
Management expense ratio <sup>5</sup>	% 1.89	% 1.83	% 1.77	% 1.82	% 1.88
Management expense ratio before waivers or absorption	1.89	1.83	1.77	1.82	1.88
Portfolio turnover rate <sup>6</sup>	44.88	19.3	22	29	12
Trading expense ratio <sup>7</sup>	0.16	0.12	0.1	0.2	0.2
Net asset value per unit, end of year	\$ 13.29	\$ 16.47	\$ 14.57	\$ 14.53	\$ 16.43

### 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.

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## Series F

Year ended	31-Dec-2018	31-Dec-2017	31-Dec-2016	31-Dec-2015	31-Dec-2014
<b>Net assets per unit<sup>1</sup></b>					
Net assets, beginning of year	\$ 18.49	\$ 16.34	\$ 16.31	\$ 18.37	\$ 15.80
Operations:					
Total revenue	0.48	0.33	0.31	0.33	0.36
Total expenses	(0.21)	(0.18)	(0.16)	(0.18)	(0.19)
Realized gains (losses)	1.57	(0.07)	0.42	1.07	0.11
Unrealized gains (losses)	(3.95)	2.11	(0.13)	(2.49)	2.31
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ (2.11)</b>	<b>\$ 2.19</b>	<b>\$ 0.44</b>	<b>\$ (1.27)</b>	<b>\$ 2.59</b>
Distributions:					
From income (excluding dividends)	\$ (0.02)	\$ -	\$ -	\$ -	\$ -
From dividends	(0.21)	(0.13)	(0.18)	(0.03)	(0.12)
From capital gains	(1.18)	(0.01)	(0.56)	(1.02)	-
<b>Total distributions<sup>2 3</sup></b>	<b>\$ (1.41)</b>	<b>\$ (0.14)</b>	<b>\$ (0.74)</b>	<b>\$ (1.05)</b>	<b>\$ (0.12)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$ 15.00</b>	<b>\$ 18.49</b>	<b>\$ 16.34</b>	<b>\$ 16.31</b>	<b>\$ 18.37</b>

<b>Ratios and supplemental data</b>					
Net asset value <sup>4</sup>	\$ 17,860,529	\$ 20,576,955	\$ 23,436,852	\$ 29,199,344	\$ 22,293,217
Units outstanding	1,190,381	1,112,771	1,434,467	1,789,993	1,213,418
Management expense ratio <sup>5</sup>	% 1.03	% 1.01	% 0.97	% 0.97	% 1.04
Management expense ratio before waivers or absorption	1.03	1.01	0.97	0.97	1.04
Portfolio turnover rate <sup>6</sup>	44.88	19.3	22	29	12
Trading expense ratio <sup>7</sup>	0.16	0.12	0.1	0.2	0.2
Net asset value per unit, end of year	\$ 15.00	\$ 18.49	\$ 16.34	\$ 16.31	\$ 18.37

## Notes

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## Management Fees

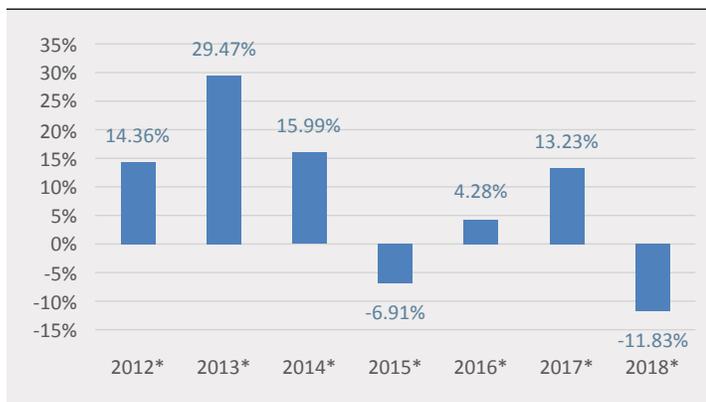
The Manager provides or arranges the provision of all general management and administrative services required by the Fund, and as described in the section “Related Party Transactions” above.

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

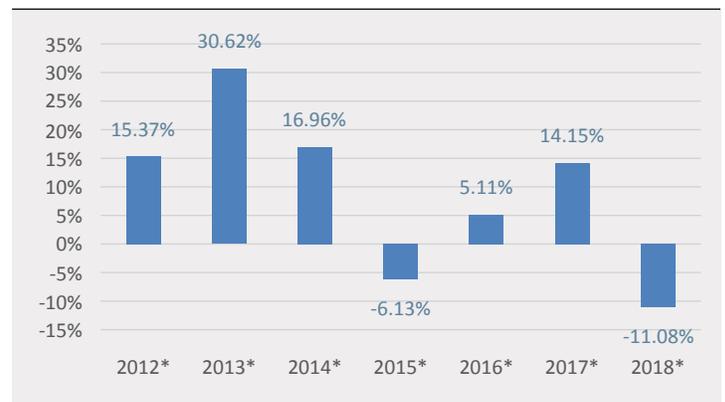


## Past Performance

The Fund became a reporting issuer on December 23, 2011. The commencement 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 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



\* 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, 2018		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>	%	(11.83)	%	1.35	%	2.37	%	7.83
Series F <sup>1</sup>		(11.08)		2.18		3.21		8.65
Index <sup>4,5</sup>	%	0.05	%	4.48	%	6.64	%	8.70

### 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, 2018 (Series A) and from December 23, 2011 to December 31, 2018 (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>		
General Electric Company (Equity)	%	5.8	Canadian Equities	%	34.6
Maxar Technologies Ltd. (Equity)		4.3	Canadian Fixed Income		21.3
Xplornet Communications Inc. (Equity)		4.0	Cash and Cash Equivalents		3.4
Bombardier Inc. (Equity)		3.7	Foreign Equities		26.4
Bayer Aktiengesellschaft (Equity)		3.7	Foreign Fixed Income		14.2
Second Cup Ltd. (Equity)		3.7	Other Assets less Liabilities		0.1
Yellow Pages Limited (Equity)		3.6	<b>Total</b>	<b>%</b>	<b>100.0</b>
Cash and Cash Equivalents		3.4	<b>Sector</b>		
Bank of Montreal (Debt)		3.3	Cash and Cash Equivalents	%	3.4
Royal Bank of Scotland (Equity)		3.0	Communication		22.9
Corus Entertainment Inc. (Equity)		2.8	Consumer Discretionary		4.7
Nintendo Co Ltd (Equity)		2.7	Consumer Staples		3.9
BZ Holdings Inc. (Equity)		2.7	Energy		9.0
Nutrien Ltd. (Equity)		2.6	Federal		3.3
Enbridge Inc. (Equity)		2.4	Financials		22.0
Apple Inc. (Debt)		2.4	Health Care		4.0
Unicredit SPA (Equity)		2.2	Industrials		12.2
Canfor Pulp Products Inc. (Equity)		2.1	Information Technology		8.6
Commerzbank AG (Equity)		2.1	Infrastructure		2.4
Manulife Financial Corp. (Equity)		1.9	Materials		2.6
The Walt Disney Co. (Debt)		1.7	Other Assets less Liabilities		0.1
Toronto Dominion Bank (Debt)		1.7	Provincial		0.5
GE Capital Canada (Debt)		1.7	Real Estate		0.4
AT&T Inc. (Debt)		1.7	<b>Total</b>	<b>%</b>	<b>100.0</b>
Shaw Communications Inc. (Debt)		1.6			
<b>Total</b>	<b>%</b>	<b>70.8</b>			



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