

**Annual Management Report of Fund Performance**

As at December 31, 2018

Lysander-Triasima All Country Equity Fund



**TRIASIMA**



# Lysander-Triasima All Country Equity 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-Triasima All Country Equity 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 long-term capital growth by investing primarily in equity securities of companies anywhere in the world.

## Investment Strategies

The Fund’s portfolio manager is Triasima Portfolio Management Inc. (“Portfolio Manager” or “Triasima”). The Fund’s portfolio positions are primarily invested in equity securities of companies globally, including American Depositary Receipts and Global Depositary Receipts. The Fund will not be leveraged. The Fund

may invest up to 100% of its 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 2018, Triasima employed its Three-Pillar methodology which analyses securities from three perspectives: quantitative, fundamental, and trend to determine their suitability and attractiveness for the Lysander-Triasima All Country Fund.

The Fund’s Series A and F performance is -8.4% and -7.4% respectively for 2018, versus -1.2% for the MSCI ACWI Index benchmark. On an annualized basis since inception, three years ago, the Index has returned 6.0%, while Series A and F post returns of 4.2% and 4.9% respectively.

Generally speaking, the year 2018 was divided into two parts. During the first nine months, growth, momentum and cyclicality were three highly rewarded style factors that were also heavily weighted in the Fund. These factors first stumbled in July 2018 and later faltered badly over the last three months of 2018 upon the occurrence in early October of a sudden and major regime change for the stocks markets.

Many Fund holdings began to perform poorly at that time, primarily from the cyclical and growth sectors such as Energy, Materials and Information Technology. This is the primary reason for the Fund’s underperformance relative to the MSCI ACWI Index benchmark in 2018.

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Two examples, both growth stories, illustrate this regime change whereby expensive stocks collapsed during the fourth quarter as growth and momentum factors were shunned. Align Technology, from the Healthcare sector, had been up from \$20 to \$400 over several years, including 77% from the beginning of the year until September 25th. This holding then proceeded to fall 45% to year-end, on the heels of a soft earnings report. The key culprit was lower average selling prices for their flagship Invisalign product following voluntary price discounting by the company to ward off future competitors. The second example is Nvidia from the Information Technology sector. This holding, a stalwart of the Fund, had seen its stock price multiplied by twenty over the previous five years, including rising 55% in 2018 until its peak in September. Following the regime change, it suddenly dropped 51% over three months, heavily penalised due to a soft quarterly report.

The Fund also had an overweight, relative to the benchmark, position in Emerging markets over the first half of the year. These markets fared poorly mainly because of slowing economies and the strong U.S. Dollar. For example, two Argentinian issuers, Transportadora De Gas Del Sur and Pampa Energia, were laggards.

One bright spot was Sodastream, a carbonated beverage machine maker, which rose 64% during the second half of the year due to a \$3.2 billion takeover by Pepsi.

The net assets of the Fund increased to \$4.1 million from \$1.9 million at the end of December 2017 due in part to net subscriptions of \$2.5 million.

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

The year 2017 witnessed a period of global synchronous growth while 2018 was marked, for the first nine months, by the divergence between the continued strong economy of the United States and the slowdown in Europe and China. The United States was helped by a full employment situation, strong internal demand, and corporate tax cuts. Its pace of economic expansion was known to be unsustainably high and, by mid-Summer 2018, a slowdown was expected at some point.

True to form, investor sentiment deteriorated suddenly early in October over persistent decelerating growth concerns, but also because of rising interest rates, newly restrictive monetary policies, and trade frictions. The turn of sentiment for the worse also incorporated the belief that corporate profit margins had peaked.

In Europe, the economic slowdown is well illustrated by the Eurozone PMI slumping to 51.3 late in the year, barely in expansionary territory. Slower Chinese growth, fears over Brexit as well as the “gilets jaunes” protests in France also weighed on economic activity and sentiment.

The equity market sudden pullback over the October to December period was accompanied by substantial interest rates decreases in Canada and the United States all along these countries’ respective yield curves beyond the one-year maturity. The 10-year federal bond yield fell from 2.6% to 2.0% in Canada and from 3.2% to 2.7% in the United States. These were very large drops over a short time frame. Corporate yields fell less because enhanced risk aversion caused a widening of credit spreads.

In Triasima's view, there was no place to hide in the later months of 2018. The United States and most foreign bourses, and nine out of the eleven GICS sectors, posted negative returns. Companies did report strong third quarter financial results, but simultaneously lowered expectations for 2019, leading to negative earnings revisions. The S&P 500 Index ended retreating 4% while the MSCI EAFE fell 8%.

The closing months of 2018 erased the positive performance recorded earlier by the market. The MSCI ACWI benchmark concluded 2018 with a small 1% pullback.

Fund turnover was high throughout the year due to Fund cash inflows, with purchases in the portfolio outnumbering sales three to two. A large proportion of the purchases were additions to pre-existing positions. A focus during the first half of the year was to add to growth names and to reduce the weighting of the Financials sector. Profit growth has been under-whelming of late for banks and life insurance companies and their performance lagging.

The trading orientation reversed course in October because of the regime change, with the cyclical and growth themes being reduced, mostly in the United States. Illustrating this, in the Information Technology sector, Adobe (design software) and Visa were added to the Fund's portfolio while the more cyclical semiconductor names Texas Instruments, ASML, and Dassault Systems were sold. Another example is the addition of the

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United Healthcare holding, a managed care company with a predictable earnings profile.

While markets were in a bull phase over the first nine months of the year, the Fund's cash reserve was kept low at an average of 5%. It was higher at 11% during the last three months pullback.

At year-end, American companies are overweight in the Fund's portfolio while international companies are underweight

There have been no changes to the Manager or Portfolio Manager, or change of control of the Manager, or of the Fund in the year. 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 Fund paid \$30,305 (including HST) in management fees to the Manager for the year ended December 31, 2018. (December 31, 2017 - \$11,916).

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.

The Manager paid \$11,800 (including HST) to the Portfolio Manager for the year December 31, 2018 (December 31, 2017: \$4,873).

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	
<b>Net assets per unit<sup>1</sup></b>						
Net assets, beginning of year	\$	12.27	\$	10.54	\$	10.00
Operations:						
Total revenue		0.14		0.17		0.15
Total expenses		(0.33)		(0.32)		(0.23)
Realized gains (losses)		(0.49)		0.26		(0.36)
Unrealized gains (losses)		(3.41)		1.62		1.04
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$</b>	<b>(4.09)</b>	<b>\$</b>	<b>1.73</b>	<b>\$</b>	<b>0.60</b>
Distributions:						
From income (excluding dividends)	\$	-	\$	-	\$	-
From dividends		-		-		(0.06)
From capital gains		-		-		-
<b>Total distributions<sup>2 3</sup></b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>(0.06)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$</b>	<b>11.24</b>	<b>\$</b>	<b>12.27</b>	<b>\$</b>	<b>10.54</b>

<b>Ratios and supplemental data</b>						
Net asset value <sup>4</sup>	\$	238,558	\$	6,170	\$	5,300
Units outstanding		21,232		503		503
Management expense ratio <sup>5</sup>	%	2.55	%	2.54	%	2.21
Management expense ratio before waivers or absorption		4.10		4.34		8.31
Portfolio turnover rate <sup>6</sup>		98.0		41.4		64.0
Trading expense ratio <sup>7</sup>		0.4		0.4		0.4
Net asset value per unit, end of year	\$	11.24	\$	12.27	\$	10.54

#### Notes

\* The Fund became a reporting issuer on December 31, 2015 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) 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.

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

### Series F\*

Year ended	31-Dec-2018		31-Dec-2017		31-Dec-2016	
<b>Net assets per unit<sup>1</sup></b>						
Net assets, beginning of year	\$	12.43	\$	10.56	\$	10.00
Operations:						
Total revenue		0.19		0.17		0.16
Total expenses		(0.20)		(0.19)		(0.13)
Realized gains (losses)		0.08		0.02		(0.37)
Unrealized gains (losses)		(1.53)		2.19		1.58
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$</b>	<b>(1.46)</b>	<b>\$</b>	<b>2.19</b>	<b>\$</b>	<b>1.24</b>
Distributions:						
From income (excluding dividends)	\$	-	\$	-	\$	-
From dividends		-		(0.01)		(0.01)
From capital gains		-		-		-
<b>Total distributions<sup>2 3</sup></b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>(0.01)</b>	<b>\$</b>	<b>(0.01)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$</b>	<b>11.51</b>	<b>\$</b>	<b>12.43</b>	<b>\$</b>	<b>10.56</b>
<b>Ratios and supplemental data</b>						
Net asset value <sup>4</sup>	\$	3,842,737	\$	1,896,482	\$	491,765
Units outstanding		333,855		152,603		46,575
Management expense ratio <sup>5</sup>	%	1.42	%	1.41	%	1.20
Management expense ratio before waivers or absorption		2.21		3.32		6.47
Portfolio turnover rate <sup>6</sup>		98.0		41.4		64.0
Trading expense ratio <sup>7</sup>		0.4		0.4		0.4
Net asset value per unit, end of year	\$	11.51	\$	12.43	\$	10.56

### Notes

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## Management Fees

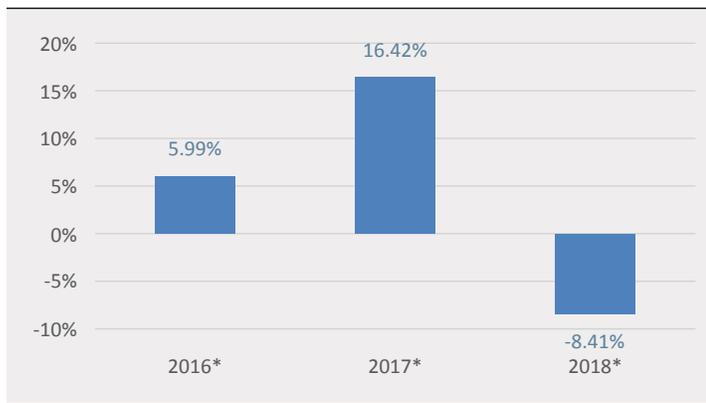
The Manager provides or arranges the provision of all general management and administrative services required by the Fund, and as described in the section “Related Party Transactions” above.

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 2.00% per annum for Series A units and 1.00% per annum for Series F units.

Service fees or trailing commissions of a maximum of 1.00% 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

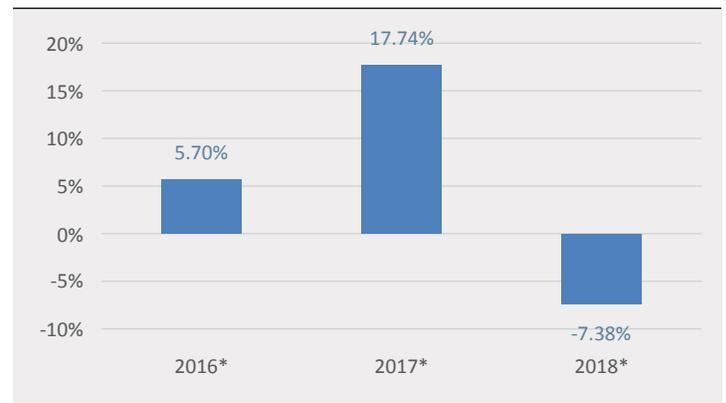


## Past Performance

The Fund became a reporting issuer on December 31, 2015. Accordingly, returns are shown for the relevant 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 MSCI All Country World (CAD) 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, 2018		1 Year		3 Year <sup>2</sup>		Since Inception <sup>3</sup>
<b>Annual Compound Return</b>						
Series A <sup>1</sup>	%	(8.41)	%	4.16	%	4.16
Series F <sup>1</sup>		(7.38)		4.85		4.85
MSCI All Country World (CAD) Index <sup>4</sup>	%	(1.23)	%	6.04	%	6.04

### 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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## Summary of Investment Portfolio

		% of NAV
<b>Top 25 Issuers</b>		
Cash and Cash Equivalents	%	6.8
United Healthcare Corp.		2.9
Visa Inc.		2.2
Marathon Petroleum Corp.		2.2
CF Industries Holdings Inc.		2.0
Anthem Inc.		2.0
Ecolab Inc		2.0
Brinker Intl Inc		1.9
Csx Corp.		1.9
Illumina Inc.		1.8
Sony ADR		1.8
Wirecard Ag		1.7
JP Morgan Chase & Co.		1.6
Safran SA		1.6
Geopark Ltd		1.6
SCP Pool		1.6
Intuitive Surgical Inc.		1.6
Cheniere Energy Inc.		1.6
Motorola Solutions Inc.		1.5
Israel Chemicals Ltd.		1.5
Adobe Systems Incorporated		1.5
Edenred SA		1.5
Vale S.A. ADR		1.5
Dollar General Corp.		1.4
Zoetis Inc.		1.4
<b>Total</b>	<b>%</b>	<b>49.1</b>

		% of NAV
<b>Asset Mix</b>		
Cash and Cash Equivalents	%	6.8
Foreign Equities		92.3
Other Assets less Liabilities		0.9
<b>Total</b>	<b>%</b>	<b>100.0</b>
<b>Sector</b>		
Cash and Cash Equivalents	%	6.8
Consumer Discretionary		9.4
Consumer Staples		7.1
Energy		11.0
Financials		11.6
Health Care		14.0
Industrials		12.4
Information Technology		13.1
Materials		10.6
Other Assets less Liabilities		0.9
Real Estate		1.2
Utilities		1.9
<b>Total</b>	<b>%</b>	<b>100.0</b>



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