

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

Lysander-Triasima Balanced Income Fund



**TRIASIMA**



# Lysander-Triasima Balanced Income 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-Triasima Balanced Income 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 generate returns consisting of income and capital gains by investing primarily in a portfolio of fixed income securities and equities 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 money market instruments and bonds, as well as income trust, preferred shares and Canadian, American and international equities 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 analyzes securities from three perspectives, quantitative, fundamental, and trend, to determine their suitability and attractiveness for the Fund.

The performance of the Lysander-Triasima Balanced Income is behind the benchmark for the year 2018. Series A performance is -9.7% and Series F is -8.9%, versus the benchmark’s -3.0%. Since inception, three years ago, the benchmark’s annualized return is 4.7%, while Series A and Series F show 0.5% and 0.9% respectively.

Generally speaking, 2018 was divided into two parts. During the first nine months, the North-American economies grew well, interest rates moved up, and, in the stock market, the cyclical, growth, and momentum style factors outperformed. This regime suddenly changed in early October when sentiment turned negative, mainly due to lower economic growth expectations.

The Fund's underperformance in 2018 relative to its benchmark was primarily caused by overall stock selection. Holdings from Canada, the United States, and internationally all

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underperformed their respective indices. Although the Fund's equities have a high dividend yield due to the investment strategies of the Fund, they were also relatively cyclical, as this was a factor rewarded by the market until a shift in the markets occurred in October.

Additionally, the international component had a significant exposure to emerging markets, which did not perform well in the second half of the year due to continued US dollar strength and the global growth slowdown. Examples of cyclical holdings include Wajax (Canada – heavy equipment), H&E Equipment Services (United States – heavy equipment) and Turkcell (Turkey – Telecommunications). These three stocks fell 36% on average.

Finally, the bond asset class was underweight in the Fund's portfolio during the year, a substandard decision since this asset class ended up outperforming equities by year-end following their sudden fourth quarter debacle.

The net assets of the Fund decreased from \$1.64 million at December 2017 to \$1.56 million at December 31, 2018.

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.

Canada largely tracked the United States. Gross domestic product grew well in 2018, helped along by the export market and a full-employment situation. On the negative side of the ledger, Triasima notes the topping residential market, high household indebtedness, oil producers hurt by pipeline transportation bottlenecks, and the loss of the corporate tax rate advantage over the United States.

In Europe, the economic slowdown is well illustrated by the Eurozone Purchasing Managers Index ('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 pace of economic expansion in the United States was thought 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.

The deterioration led to a sudden pullback by the equity market over the October to December period. This 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. For example, 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; very large drops over such a short time frame.

The yield-to-maturity of the FTSE Canada Universe Bond Index had risen over the first nine months of the year, from 2.5% to 2.9%, due to the solid economic momentum and higher inflation expectations in north-America. This trend turned around over the last three months of 2018 and the Index's yield-to-maturity fell back to 2.7%.

Corporate yields behaved differently. They tracked the overall Index on the way up, but did not fall when investor focus shifted to slower growth since credit spreads widened because of the enhanced risk aversion following the early October change of sentiment.

The FTSE Canada Universe Bond Index was down 0.4% after nine months in 2018 because of the rising rates. As stated, this trend turned around in October and the index moved up 1.8% over the last three months, bringing the full year return to (a measly) 1.4%. Federal bonds led the way with +2.9% while corporate bonds lagged at 1.1%, due to larger credit spreads.

In the equity market, the United States had shown strength over the first nine months of 2018; but not so Canada and the International markets because of unsatisfactory corporate profitability trends. Things got worse when overall growth concerns took over in October, alongside higher rates, leaving no place to hide. The Canadian, American and most foreign bourses posted negative returns over the last three months of the year, while only one of the eleven GICS sectors, Utilities, was up.

Companies were reporting strong third quarter financial results, but were simultaneously lowering expectations for 2019, leading to negative earnings revisions in light of the deteriorating outlook. Over the fourth quarter, the S&P/TSX Composite Index dropped 10%, the S&P 500 Index retreated 9%, while the MSCI

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EAFE fell 8%. For all of 2018, they respectively posted -9%, +3%, and -6%. It was not a banner year.

As is often the case when bourses experience a correction, the cyclical sectors dropped the most: Energy, Materials and, in this instance, Consumer Discretionary. Growth also fell out of favor and the Information Technology sector underperformed the broad indices as well.

The correction brought stock valuations down near long term averages. Stock prices may fall further still since earnings may have embarked on a downtrend.

One overall focus of the Fund throughout the year was reducing the Financial sector. Profitability trends were poor for banks and insurance companies and their performance, lagging. Utilities holdings in the Fund's portfolio were reduced in the first half of the year as they are of an interest-sensitive nature and interest rates were rising. Finally, a different focus later in the year was the elimination of disappointing holdings in the cyclical Industrial sector, hurt by global growth concerns and the weak equity markets outside the United States.

Many of the shares sold in the Fund's portfolio were Canadian, resulting in a decrease in the weighting of this asset class in 2018 from 38% to 26%. Inversely, American equities in the Fund's portfolio went up from 15% to 21%. The portfolio structure of the Fund differs markedly from the benchmark at year-end. The poorly performing bonds and Canadian equities asset classes are significantly underweight while the cash reserve is overweight for capital preservation reason and so is the best performing American equity asset class.

Bond duration in the Fund's portfolio averaged 6.9 years in 2018. It was kept lower than the FTSE Canada Universe Bond Index and allowed to drift down while prevailing interest rates were increasing.

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 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 \$14,045 (including HST) in management fees to the Manager for the year ended December 31, 2018 (December 31, 2017 - \$7,796).

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 \$8,956 (including HST) to the Portfolio Manager for the year ended December 31, 2018 (December 31, 2017 - \$5,671).

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	\$	10.88	\$	10.16	\$	10.00
Operations:						
Total revenue		0.36		0.38		0.31
Total expenses		(0.22)		(0.22)		(0.18)
Realized gains (losses)		(0.34)		0.21		(0.25)
Unrealized gains (losses)		(0.84)		0.47		0.51
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$</b>	<b>(1.04)</b>	<b>\$</b>	<b>0.84</b>	<b>\$</b>	<b>0.39</b>
Distributions:						
From income (excluding dividends)	\$	-	\$	-	\$	(0.04)
From dividends		(0.17)		(0.12)		(0.19)
From capital gains		-		-		-
<b>Total distributions<sup>2 3</sup></b>	<b>\$</b>	<b>(0.17)</b>	<b>\$</b>	<b>(0.12)</b>	<b>\$</b>	<b>(0.23)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$</b>	<b>9.68</b>	<b>\$</b>	<b>10.88</b>	<b>\$</b>	<b>10.16</b>
<b>Ratios and supplemental data</b>						
Net asset value <sup>4</sup>	\$	5,080	\$	5,623	\$	5,194
Units outstanding		525		517		511
Management expense ratio <sup>5</sup>	%	1.96	%	1.94	%	1.68
Management expense ratio before waivers or absorption		3.14		3.95		7.62
Portfolio turnover rate <sup>6</sup>		61.1		35.6		52.1
Trading expense ratio <sup>7</sup>		0.2		0.3		0.3
Net asset value per unit, end of year	\$	9.68	\$	10.88	\$	10.16

### 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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## 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	\$	10.88	\$	10.16	\$	10.00
Operations:						
Total revenue		0.36		0.38		0.33
Total expenses		(0.14)		(0.13)		(0.11)
Realized gains (losses)		(0.34)		0.06		(0.28)
Unrealized gains (losses)		(0.85)		0.90		0.71
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$</b>	<b>(0.97)</b>	<b>\$</b>	<b>1.21</b>	<b>\$</b>	<b>0.65</b>
Distributions:						
From income (excluding dividends)	\$	-	\$	-	\$	-
From dividends		(0.22)		(0.23)		(0.21)
From capital gains		-		-		-
<b>Total distributions<sup>2 3</sup></b>	<b>\$</b>	<b>(0.22)</b>	<b>\$</b>	<b>(0.23)</b>	<b>\$</b>	<b>(0.21)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$</b>	<b>9.70</b>	<b>\$</b>	<b>10.88</b>	<b>\$</b>	<b>10.16</b>
<b>Ratios and supplemental data</b>						
Net asset value <sup>4</sup>	\$	1,555,179	\$	1,640,922	\$	432,256
Units outstanding		160,298		150,826		42,558
Management expense ratio <sup>5</sup>	%	1.14	%	1.12	%	0.93
Management expense ratio before waivers or absorption		2.33		3.26		6.11
Portfolio turnover rate <sup>6</sup>		61.1		35.6		52.1
Trading expense ratio <sup>7</sup>		0.2		0.3		0.3
Net asset value per unit, end of year	\$	9.70	\$	10.88	\$	10.16

## 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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## Management Fees

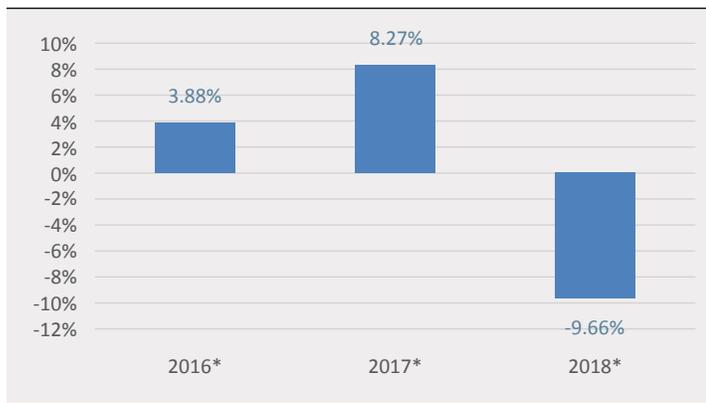
The Manager provides or arranges the provision of all general management and administrative services required by the Fund, and as described in the section “Related Party Transactions” above.

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 approximately 50% of the management fee of Series A units.

## Year-by-Year Returns

### Series A

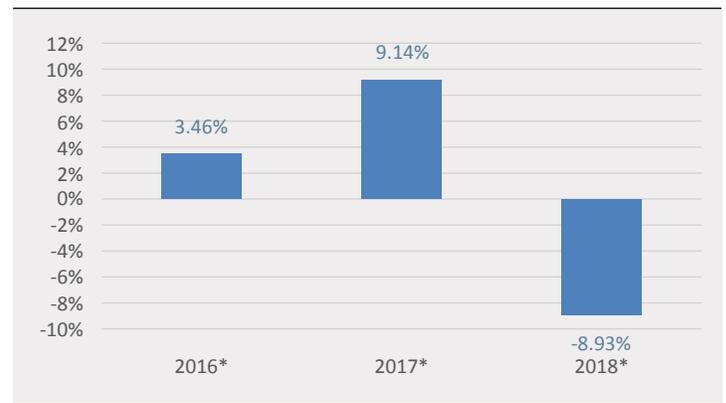


## Past Performance

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 5% FTSE TMX Canada 91 Days Tbills; 30% FTSE TMX Canada Universe Bond Index; 5% S&P/TSX Preferred Share Index; 35% S&P/TSX Composite Total Return Index; 15% S&P 500 Total Return Index; 10% MSCI EAFE Composite (CAD) (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>	%	(9.66)	%	0.53	%	0.53	
Series F <sup>1</sup>		(8.93)		0.94		0.94	
Index <sup>4</sup>	%	(2.95)	%	4.69	%	4.69	

### Notes

<sup>1</sup> Returns are based on the net asset value per unit of the relevant series of the Fund and assume that all distributions were reinvested.

<sup>2</sup> Compound period returns are annualized.

<sup>3</sup> Period starting from December 31, 2015. Since inception returns are annualized.

<sup>4</sup> 5% FTSE TMX Canada 91 Days Tbills; 30% FTSE TMX Canada Universe Bond Index; 5% S&P/TSX Preferred Share Index; 35% S&P/TSX Composite Total Return Index; 15% S&P 500 Total Return Index; 10% MSCI EAFE Composite (CAD)

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## Summary of Investment Portfolio

		% of NAV			% of NAV
<b>Top 25 Issuers</b>			<b>Asset Mix</b>		
Cash and Cash Equivalents	%	14.6	Canadian Equities	%	25.8
Killam Apartment Real Estate Investment Trust (Equity)		3.2	Canadian Fixed Income		17.4
Government of Canada (Debt)		2.4	Cash and Cash Equivalents		14.6
S&P (Equity)		2.4	International Equities		13.1
Hong Kong & China Gas Co. Ltd. ADR (Equity)		2.4	Other Assets less Liabilities		1.5
Labrador Iron Royalty Corp (Equity)		2.3	Preferred Shares		4.6
Brinker International; Inc. (Equity)		2.3	US Equities		23.0
The Boeing Company (Equity)		2.3	<b>Total</b>	<b>%</b>	<b>100.0</b>
WSP Global (Equity)		2.3	<b>Sector</b>		
Intercontinental Hotels Group ADR (Equity)		2.1	Cash and Cash Equivalents	%	14.6
Banco Santander Chile (Equity)		2.1	Consumer Staples		9.8
Mine Safety Appliances (Equity)		2.1	Energy		15.8
Royal Dutch Shell ADR (Equity)		2.0	Federal		2.4
Rogers Communication Inc. (Equity)		2.0	Financials		13.8
Canadian Apartment Property REIT (Equity)		2.0	Industrials		8.1
Eni SPA ADR (Equity)		1.9	Information Technology		3.5
BC Ferry (Debt)		1.9	Materials		5.7
BAM (Debt)		1.9	Other Assets less Liabilities		1.5
Suncor Energy Inc. (Equity)		1.8	Provincial		6.1
Marathon Petroleum Corp. (Equity)		1.8	Real Estate		11
Home Depot (Equity)		1.8	Telecommunication Services		4.3
Bell Canada (Debt)		1.8	Utilities		3.4
National Bank (Equity)		1.8	<b>Total</b>	<b>%</b>	<b>100.0</b>
Cineplex Inc. (Equity)		1.8			
AllianceBernstein Holding LP (Equity)		1.8			
<b>Total</b>	<b>%</b>	<b>64.8</b>			



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