

Semi-Annual Management Report of Fund Performance
As at June 30, 2019

Canso Credit Income Fund



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A Note About Forward Looking Statements

This semi-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 semi-annual Management Report of Fund Performance of Canso Credit Income Fund (the “Fund”) contains financial highlights for the period ended June 30, 2019 but does not contain the complete financial statements of the investment fund. This report should be read in conjunction with the semi-annual financial statements of the Fund for the period ended June 30, 2019. 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, 3080 Yonge St., Suite 3037, Toronto, Ontario, M4N 3N1, by visiting our website at www.lysanderfunds.com or at SEDAR at 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 (i) maximize total returns for unitholders while reducing risk and (ii) provide unitholders with monthly cash distributions by taking long and short positions in a portfolio of primarily of corporate bonds and other income securities.

Investment Strategies

The Fund is managed by Canso Investment Counsel Ltd. (“Canso” or “Portfolio Manager”), a company under common control as the Manager. The Fund's portfolio holdings are not restricted by credit ratings. In addition, Canso engages in short selling of

securities primarily to hedge credit and interest rate risk. This allows the Fund's portfolio to be positioned more defensively in both rising interest rate environments and credit downturns.

Risks

The risks of this Fund remain as discussed in the Fund’s most recently filed public disclosure documents.

Results of Operations

From the inception date of the Fund, Canso has positioned the Fund to isolate and take advantage of wide credit spreads, primarily by shorting Government of Canada bonds against long corporate bond positions. The net effect of these long/short positions is to help insulate the Fund against an increase in interest rates, which Canso expects over the medium term, and to exploit attractive credit spreads of the corporate bond positions.

The Fund had returns for the year of 6.35% for Class A units and 6.48% for Class F units. At the end of the period, the Fund held approximately 50.0% of its net asset value in short positions. These primarily consisted of short positions in Government of Canada bonds.

The net assets of the Fund were \$153.8 million at June 30, 2019 compared to \$156.0 million at the beginning of the period. This was mainly due to appreciation and net earnings of the Fund offset by cash distributions of approximately \$3.5 million and net redemptions of approximately \$8.4 million.

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

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Recent Developments

After aggressively raising interest rates in 2018, the U.S. Federal Reserve announced that they no longer planned to raise rates this year and may actually cut rates in the third quarter. This was a major pivot from their previous stance of incremental rate hikes over the last three years and seems to be at least partially driven by prerssure from the Trump administration.

Corporate bonds outperformed U.S. Treasuries as investors reached for higher yields amidst benign inflation. The Fed is encouraged by the growth in household spending and strong labour market. However, in keeping with its dual mandate (maximum employment and stable prices), it is worried about soft business investment and inflation near its threshold of 2 percent.

The Bank of Canada has also kept administered rates on hold in 2019 but seem less inclined to actually cut rates than their counterparts in the U.S. This has started to cause administered interest rates to converge in both countries and provided a recent lift to the Canadian dollar. Meanwhile, the major economies in Europe and Japan are still experimenting with negative interest rates to restart flagging growth. We see this as unsustainable.

In this environment both the bond and stock markets did well. This is a puzzle as lower yields in the bond market are normally a signal of a slowing economy. A slowing economy would normally be expected to be negative for corporate profits and, therefore, stock prices. However, equity markets focused on lower interest rates rather than an economic slowdown and continued to rise to new heights.

Canso has concerns about overall market valuations in both equities and bonds and believes that caution is warranted, even though current trends may continue for some time.

Canso increased the weight in BBB rated issues in the period as select opportunities presented attractive incremental yield given the credit risk. In the first quarter of 2019, the Fund took a sizeable position in a 5-year Ford Credit Canada bond. The Ford Credit Canada bond benefits from an unconditional guarantee from Ford Motor Credit Company, the captive finance subsidiary of Ford, and a keep-well agreement from the parent company. The Fund also increased its position in the issues of AT&T, General Electric and UniCredit.

Canso 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 floating rate notes. At the end of the period, the Fund was 48% invested in floating rate notes and had a duration of 1.1 years. The Fund

also sells Government of Canada bonds short against long corporate bond purchases to isolate the return of the credit spread and reduce interest rate risk.

At the end of the period, the Fund held long positions that were approximately 150% of the net asset value of the Fund.

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 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 classes, 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 Fund's most recently filed Annual Information Form.

The Fund paid \$599,787(excluding HST) in management fees to the Manager for the year ended June 30, 2019 (June 30, 2018 - \$648,857).

The Manager is also entitled to receive a performance fee from the Fund (the "Performance Fee") under certain conditions as described in the Fund's most recently filed Annual Information Form. For the year ended June 30, 2019, the Performance Fee accrued payable by the Fund was Nil (excluding HST) (June 30, 2018 - \$541,337).

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 will also pay to Canso a percentage of any Performance Fee that the Manager receives from the Fund, such percentage to be agreed upon between the Manager and the Portfolio Manager from time to time.

The Manager paid \$276,951 (excluding HST) to the Portfolio Manager for the year ended June 30, 2019 (June 30, 2018 - \$302,800) including performance fees, if applicable.

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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

Class A

Period ended	30-Jun-19	31-Dec-2018	31-Dec-2017	31-Dec-2016	31-Dec-2015	31-Dec-2014
Net assets per unit¹						
Net assets, beginning of period	\$ 10.70	\$ 11.65	\$ 11.32	\$ 10.75	\$ 11.43	\$ 10.71
Operations:						
Total revenue	0.36	0.49	0.78	0.76	0.26	-
Total expenses	(0.16)	(0.30)	(0.41)	(0.26)	(0.11)	(0.12)
Realized gains (losses)	0.01	0.21	0.21	(0.46)	4.66	0.15
Unrealized gains (losses)	0.47	(0.84)	0.21	0.95	(5.00)	1.18
Total increase (decrease) from operations²	\$ 0.68	\$ (0.44)	\$ 0.79	\$ 0.99	\$ (0.19)	\$ 1.21
Distributions:						
From income (excluding dividends)	\$ (0.25)	\$ (0.11)	\$ (0.52)	\$ (0.48)	\$ -	\$ -
From dividends	-	(0.03)	(0.02)	-	-	-
From capital gains	-	-	-	-	(3.55)	-
From return of capital	-	(0.36)	-	(0.02)	-	(0.50)
Total distributions^{2 3}	\$ (0.25)	\$ (0.50)	\$ (0.54)	\$ (0.50)	\$ (3.55)	\$ (0.50)
Net assets, end of period^{2 3}	\$ 11.13	\$ 10.70	\$ 11.65	\$ 11.32	\$ 10.75	\$ 11.43

Ratios and supplemental data						
Net asset value ⁴ (thousands)	\$ 138,685	\$ 138,957	\$ 153,038	\$ 194,815	\$ 212,656	\$ 223,935
Units outstanding	12,462,568	12,986,466	13,139,530	17,208,747	19,783,017	19,586,958
Management expense ratio ⁵	% 1.51	% 1.50	% 2.73	% 2.33	% 1.77	% 3.18
Portfolio turnover rate ⁶	32.27	34.94	43.11	31.33	128.59	5.42
Trading expense ratio ⁷	-	0.02	0.01	0.03	-	-
Net asset value per unit, end of period	11.13	10.70	11.65	11.32	10.75	11.43
Closing Market price per unit ⁴	\$ 11.15	\$ 11.16	\$ 11.32	\$ 10.86	\$ 10.50	\$ 12.05

Notes

- The information is derived from the Fund's unaudited semi-annual/or 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. A portion of the distributions in 2015 and 2017 were paid in cash (\$0.50/unit) and the remainder was paid as a special non-cash distribution.
- This information is provided at the end of the period shown.
- In 2014 the management expense ratio is based on total expenses of both the Fund and Canso Credit Trust (excluding commissions and other portfolio transaction costs but including initial issuance costs) for the stated period and is expressed as an annualized percentage of monthly average net asset value 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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Class F

Period ended	30-Jun-19	31-Dec-2018	31-Dec-2017	31-Dec-2016	31-Dec-2015	31-Dec-2014
Net assets per unit¹						
Net assets, beginning of period	\$ 11.62	\$ 12.55	\$ 12.14	\$ 11.47	\$ 12.10	\$ 11.27
Operations:						
Total revenue	0.39	0.53	0.85	0.82	0.27	-
Total expenses	(0.16)	(0.28)	(0.41)	(0.26)	(0.07)	(0.08)
Realized gains (losses)	0.02	0.23	0.20	(0.49)	5.01	0.16
Unrealized gains (losses)	0.51	(0.88)	0.27	0.97	(5.34)	1.29
Total increase (decrease) from operations²	\$ 0.76	\$ (0.40)	\$ 0.91	\$ 1.04	\$ (0.13)	\$ 1.37
Distributions:						
From income (excluding dividends)	\$ (0.25)	\$ (0.1)	\$ (0.53)	\$ (0.43)	\$ -	\$ -
From dividends	-	(0.04)	(0.03)	-	-	-
From capital gains	-	-	-	-	(3.95)	-
From return of capital	-	(0.36)	-	(0.07)	-	(0.50)
Total distributions^{2 3}	\$ (0.25)	\$ (0.50)	\$ (0.56)	\$ (0.50)	\$ (3.95)	\$ (0.50)
Net assets, end of period^{2 3}	\$ 12.12	\$ 12.58	\$ 12.55	\$ 12.14	\$ 11.47	\$ 12.10
Ratios and supplemental data						
Net asset value ⁴ (thousands)	\$ 15,117	\$ 17,052	\$ 20,160	\$ 21,279	\$ 28,009	\$ 32,630
Units outstanding	1,247,103	1,467,453	1,606,525	1,753,184	2,442,940	2,696,472
Management expense ratio ⁵	% 1.16	% 1.14	% 2.51	% 2.11	% 1.33	% 2.73
Portfolio turnover rate ⁶	32.27	34.94	43.11	31.33	128.59	5.42
Trading expense ratio ⁷	-	0.02	0.01	0.03	-	-
Net asset value per unit, end of period	\$ 12.12	\$ 11.62	\$ 12.55	\$ 12.14	\$ 11.47	\$ 12.10

Notes

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- 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

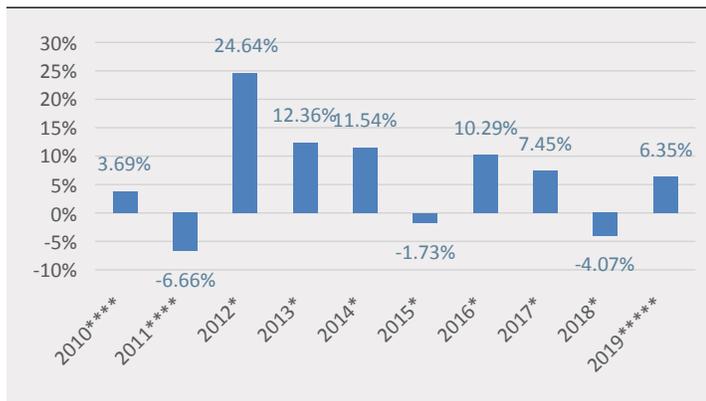
The Manager provides or arranges the provision of all general management and administrative services required by the Fund, and as described in the section "Related Party Transactions" above.

In consideration for such services, the Manager receives a monthly management fee, based on the net asset value of each Class, calculated daily and payable monthly. The Fund pays a management fee of 0.75% per annum for Class A and Class F units.

Service fees or trailing commissions ("Service Amount") are calculated and paid after the end of each calendar quarter, equal to 0.40% per annum of the net asset value attributable to the Class A Units of the Fund. The Manager paid the Service Amount to brokers based on the number of Class A Units of the Fund held by clients of such brokers at the end of the relevant quarter.

Year-by-Year Returns

Class A



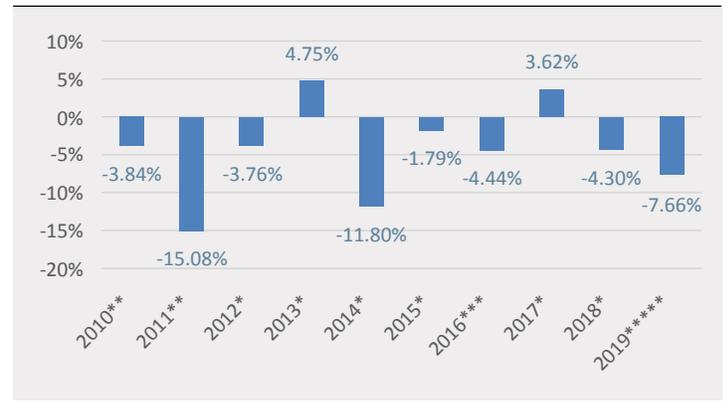
Class F



Long Portfolio



Short Portfolio



* For the period January 1 to December 31, ** For the period July 16 to December 31, *** Restated performance for short portfolio for January 1 to December 31, **** Restated performance for January 1 to December 31, ***** For the period January 1 to June 30

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Summary of Investment Portfolio

		% of NAV			% of NAV
Top 25 Issuers			Asset Mix		
Long positions:			Canadian Bonds - Corporate	%	92.5
Shaw Communications Inc (Debt)	%	9.5	Foreign Bonds - Corporate		31.8
AT&T Inc. (Debt)		9.1	Canadian Equities		20.8
Bank Of Montreal (Debt)		8.8	Foreign Equities		2.3
General Electric Co. (Debt)		8.8	Canadian Equities - Short		(5.0)
Royal Bank Of Canada (Debt)		8.5	Canadian Government Debt - Short		(39.3)
Ford Credit Canada (Debt)		8.4	Foreign Government Debt - Short		(5.6)
Enbridge Inc. (Debt)		7.4	Cash and Cash Equivalents		5.7
Transcanada Pipelines Ltd (Debt)		7.4	Other Assets less Liabilities		(3.2)
Strait Crossing Development (Debt)		7.2	Total	%	100.0
Cash and Cash Equivalents		5.7			
Lloyds Bank Plc (Debt)		4.9			
Navient Corp (Debt)		4.3			
Pembina Pipeline Corp (Debt)		4.1			
Xplornet Communications Inc. (Equity)		3.4			
Yellow Pages Limited (Equity)		3.4			
Bank Of Nova Scotia (Equity)		3.3			
BCE Inc. (Equity)		2.9			
Videotron Ltd (Debt)		2.8			
Sobeys Inc. (Debt)		2.6			
Honda Canada Finance Inc (Debt)		2.5			
Clearstream Energy Services Inc (Equity)		2.5			
Bank Of Nova Scotia (Debt)		2.4			
Short positions:					
Genworth MI Canada Inc (Equity)		(5.0)			
U.S. Treasury Bond (Debt)		(5.6)			
Government of Canada (Debt)		(39.3)			
Total	%	70.0			
Total Portfolio Long Positions	%	149.9			
Total Portfolio Short Positions		(49.9)			



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