

Annual Management Report of Fund Performance
As at December 31, 2019

Canso Credit Income 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 Canso Credit Income Fund (the “Fund”) contains financial highlights for the year ended December 31, 2019 but does not contain the complete financial statements of the investment fund. This report should be read in conjunction with the annual financial statements of the Fund for the year ended December 31, 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

The Fund had returns for the year of 10.79% for Class A units and 11.08% for Class F units. At the end of the year, 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 and U.S. Treasury bonds.

The net assets of the Fund were \$156.6 million at December 31, 2019 compared to \$156.0 million at the beginning of the year. This was mainly due to appreciation and net earnings of the Fund offset by cash distributions of approximately \$7.0 million and net redemptions of approximately \$8.5 million.

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

Recent Developments

Markets almost never behave the way most people expect and 2019 was no exception. The year started off coming off a tough final quarter of 2018 and the overall mood was negative. The US Federal Reserve appeared to be in a tightening mode that was going to last a long time. This was weighing on markets in the early part of the year.

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In what appeared to be at least partially a response to severe criticism, the Fed started to actually cut rates starting in July 2019. This caught the market by surprise and propelled a strong equity rally. Clearly, it was not the magnitude of the rate cuts that improved things, it was the message that the Fed was not going to be the one that slowed things down, especially in an election year. US equity indices ended up very strongly for the year, led by the tech-heavy NASDAQ.

The bond market moved somewhat at odds with this as yields moved down in the earlier part of the year to levels normally associated with a very weak economy. This caused bond returns to be very strong with much of their return coming from positive price changes on lower yields.

Most bond markets reversed course in the fourth quarter of 2019 and gave up some of the earlier year-to-date gains. This was driven by strong equity markets and a US Federal Reserve indicating there would not likely be any further rate cuts through the election year of 2020. Markets also looked to sustained economic expansion, labour market strength, and contained inflation in the coming year.

The Bank of Canada kept their administered rates steady in the year as the economy was reasonably strong and the Bank seemed unwilling to further fuel Canada's strong housing market. Credit spreads narrowed and corporate bonds outperformed their Government of Canada counterparts.

Towards the end of the year, Canadian and US government bond yields moved higher as the prospect of a trade deal between the US and China looked imminent. This is expected to reduce tariffs and boost Chinese purchases of American farm, energy and manufactured goods and address disputes over intellectual property.

Canso continues to have 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 below investment grade issues in the period, as the purchase of a 5% weight in a new Maxar Technologies 4-year bond presented attractive incremental yield given the credit risk. The Fund did offset this buy with sales of other below investment grade names such as Teva Pharmaceuticals and Bombardier. The Fund also entered into a trade where it went long AT&T CAD bonds and shorted AT&T USD, as it expects that the spread differential should converge over time.

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 42% invested in floating rate notes and had a duration of 1.3 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 year, 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 \$1,180,803 (excluding HST) in management fees to the Manager for the year ended December 31, 2019 (December 31, 2018- \$1,279,386).

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 December 31, 2019, the Performance Fee accrued payable by the Fund was Nil (excluding HST) (December 31, 2018 - \$12,585).

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.

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The Manager paid \$551,041 (excluding HST) to the Portfolio Manager for the year ended December 31, 2019 (December 31, 2018 - \$607,116) including performance fees, if applicable.

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

Year ended	31-Dec-19	31-Dec-2018	31-Dec-2017	31-Dec-2016	31-Dec-2015
Net assets per unit¹					
Net assets, beginning of year	\$ 10.70	\$ 11.65	\$ 11.32	\$ 10.75	\$ 11.43
Operations:					
Total revenue	0.75	0.49	0.78	0.76	0.26
Total expenses	(0.34)	(0.30)	(0.41)	(0.26)	(0.11)
Realized gains (losses)	(0.15)	0.21	0.21	(0.46)	4.66
Unrealized gains (losses)	0.88	(0.84)	0.21	0.95	(5.00)
Total increase (decrease) from operations²	\$ 0.14	\$ (0.44)	\$ 0.79	\$ 0.99	\$ (0.19)
Distributions:					
From income (excluding dividends)	\$ -	\$ (0.11)	\$ (0.52)	\$ (0.48)	\$ -
From dividends	(0.02)	(0.03)	(0.02)	-	-
From capital gains	-	-	-	-	(3.55)
From return of capital	(0.48)	(0.36)	-	(0.02)	-
Total distributions^{2 3}	\$ (0.50)	\$ (0.50)	\$ (0.54)	\$ (0.50)	\$ (3.55)
Net assets, end of year^{2 3}	\$ 11.13	\$ 10.70	\$ 11.65	\$ 11.32	\$ 10.75

Ratios and supplemental data					
Net asset value ⁴ (thousands)	\$ 142,866	\$ 138,957	\$ 153,038	\$ 194,815	\$ 212,656
Units outstanding	12,603,943	12,986,466	13,139,530	17,208,747	19,783,017
Management expense ratio ⁵	% 1.52	% 1.50	% 2.73	% 2.33	% 1.77
Portfolio turnover rate ⁶	48.10	34.94	43.11	31.33	128.59
Trading expense ratio ⁷	0.01	0.02	0.01	0.03	-
Net asset value per unit, end of year	11.34	10.70	11.65	11.32	10.75
Closing Market price per unit ⁴	\$ 10.90	\$ 11.16	\$ 11.32	\$ 10.86	\$ 10.50

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. 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.
- 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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Class F

Year ended	31-Dec-19	31-Dec-2018	31-Dec-2017	31-Dec-2016	31-Dec-2015
Net assets per unit¹					
Net assets, beginning of year	\$ 11.62	\$ 12.55	\$ 12.14	\$ 11.47	\$ 12.10
Operations:					
Total revenue	0.82	0.53	0.85	0.82	0.27
Total expenses	(0.32)	(0.28)	(0.41)	(0.26)	(0.07)
Realized gains (losses)	(0.16)	0.23	0.20	(0.49)	5.01
Unrealized gains (losses)	0.94	(0.88)	0.27	0.97	(5.34)
Total increase (decrease) from operations²	\$ 1.28	\$ (0.40)	\$ 0.91	\$ 1.04	\$ (0.13)
Distributions:					
From income (excluding dividends)	\$ -	\$ (0.1)	\$ (0.53)	\$ (0.43)	\$ -
From dividends	(0.02)	(0.04)	(0.03)	-	-
From capital gains	-	-	-	-	(3.95)
From return of capital	(0.48)	(0.36)	-	(0.07)	-
Total distributions^{2 3}	\$ (0.50)	\$ (0.50)	\$ (0.56)	\$ (0.50)	\$ (3.95)
Net assets, end of year^{2 3}	\$ 12.12	\$ 12.58	\$ 12.55	\$ 12.14	\$ 11.47
Ratios and supplemental data					
Net asset value ⁴ (thousands)	\$ 13,749	\$ 17,052	\$ 20,160	\$ 21,279	\$ 28,009
Units outstanding	1,109,959	1,467,453	1,606,525	1,753,184	2,442,940
Management expense ratio ⁵	% 1.16	% 1.14	% 2.51	% 2.11	% 1.33
Portfolio turnover rate ⁶	48.1	34.94	43.11	31.33	128.59
Trading expense ratio ⁷	0.01	0.02	0.01	0.03	-
Net asset value per unit, end of year	\$ 12.39	\$ 11.62	\$ 12.55	\$ 12.14	\$ 11.47

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. 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.
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- 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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Management Fees

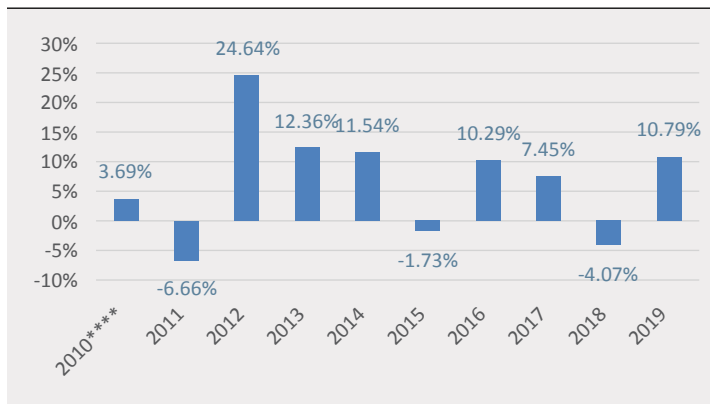
The Manager provides or arranges the provision of all general management and administrative services required by the Fund, and as described in the section "Related Party Transactions" above.

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.

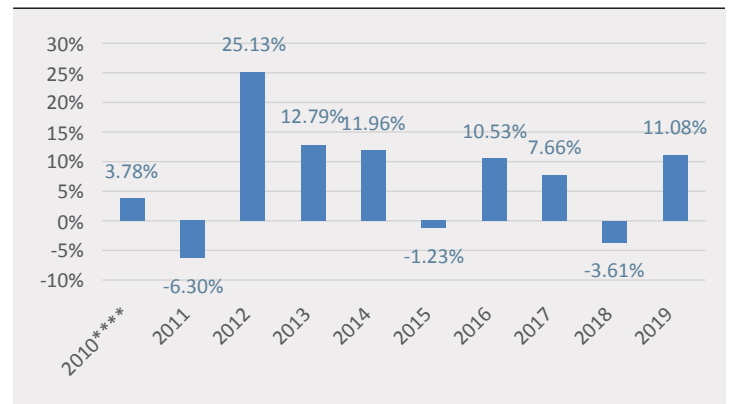
Service fees or trailing commissions ("Service Amount") are calculated and paid after the end of each calendar quarter, equal to 0.40% per annum of the net asset value attributable to the Class A Units of the Fund. The Manager paid the Service Amount to brokers based on the number of Class A Units of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

Year-by-Year Returns

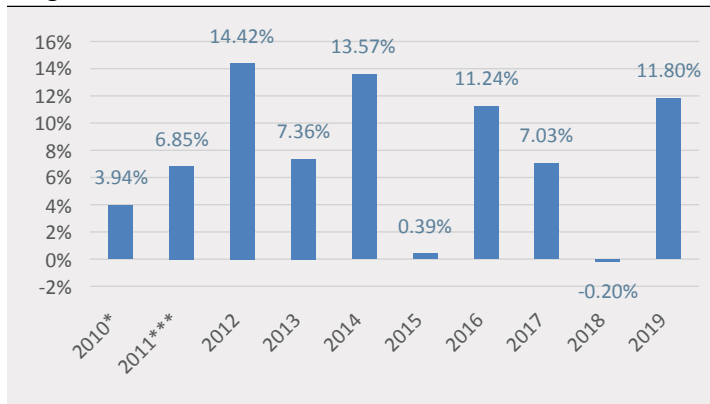
Class A



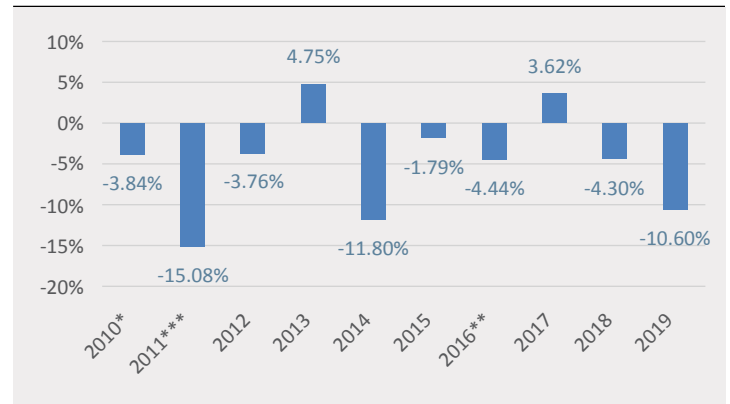
Class F



Long Portfolio



Short Portfolio



* For the period July 16 to December 31, ** Restated performance for short portfolio for January 1 to December 31, *** Restated performance for January 1 to December 31, **** Restated performance for July 16 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 FTSE Canada All Corporate Bond Index (the "Index"). The Index is divided into sub-indices based on credit rating: a combined AAA/AA sector, a single A sector, and a BBB sector. 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, 2019		1 Year		3 Year ²		5 Year ²		Since Inception ³
Annual Compound Return								
Class A ¹	%	10.79	%	4.52	%	4.36	%	6.84
Class F ¹		11.08		4.84		4.70		7.21
Long Portfolio ¹		11.80		6.10		5.90		8.00
Short Portfolio ¹		(10.60)		(3.90)		(3.60)		(5.20)
FTSE Canada All Corporate Bond Index ⁴	%	8.05	%	4.14	%	3.77	%	4.71

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 July 16, 2010 to December 31, 2019. Since inception returns are annualized.

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Summary of Investment Portfolio

		% of NAV			% of NAV
Top 25 Issuers			Asset Mix		
Long positions:			Canadian Bonds - Corporate	%	87.1
Shaw Communications Inc (Debt)	%	9.4	Foreign Bonds - Corporate		40.9
AT&T Inc. (Debt)		8.9	Canadian Equities		18.7
Bank Of Montreal (Debt)		8.7	Foreign Equities		2.2
Ford Credit Canada (Debt)		8.2	Canadian Equities - Short		(1.4)
TC Energy Corporation (Debt)		7.4	Canadian Government Debt - Short		(37.8)
Enbridge Inc. (Debt)		7.3	Foreign Government Debt - Short		(11.2)
Maxar Technologies Inc (Debt)		6.9	Cash and Cash Equivalents		0.8
Royal Bank Of Canada (Debt)		6.9	Other Assets less Liabilities		0.7
Strait Crossing Development (Debt)		6.8	Total	%	100.0
Kraft Heinz Co. (Debt)		5.0			
Lloyds Bank Plc (Debt)		4.8			
Navient Corp (Debt)		4.3			
Pembina Pipeline Corporation (Debt)		4.0			
Yellow Pages Limited (Equity)		3.7			
BCE Inc. (Equity)		3.5			
Xplornet Communications Inc. (Equity)		3.4			
General Electric Co. (Debt)		2.8			
Videotron Ltee. (Debt)		2.8			
Sobeys Inc. (Debt)		2.6			
Clearstream Energy Services Inc (Equity)		2.6			
Honda Canada Finance Inc (Debt)		2.5			
UniCredit SPA (Debt)		2.3			
Thomson Reuters Corporation (Equity)		2.3			
Short positions:					
U.S. Treasury Bond (Debt)		(5.1)			
Government of Canada (Debt)		(37.8)			
Total	%	74.2			
Total Portfolio Long Positions	%	150.4			
Total Portfolio Short Positions		(50.4)			



3080 Yonge Street, Suite 3037
Toronto, ON M4N 3N1
www.lysanderfunds.com

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