

**Annual Management Report of Fund Performance**

As at December 31, 2021

Lysander-Canso Credit Opportunities Fund



# Lysander-Canso Credit Opportunities 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-Canso Credit Opportunities Fund (the “Fund”) contains financial highlights for the year ended December 31, 2021 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, 2021. 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](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 achieve long term capital growth by investing in, or gaining exposure to, a diversified portfolio composed primarily of debt and money market securities. The Fund will use alternative investment strategies such as engaging in short sales and purchasing securities on margin or with borrowed funds.

## Investment Strategies

The Fund’s portfolio manager is Canso Investment Counsel Ltd. (“Portfolio Manager” or “Canso”), a company under common control as the Manager. The Fund will seek to achieve returns

through a portfolio that primarily invests in, or has exposure to, corporate bonds of Canadian and foreign issuers. Portfolio investments may include higher risk securities and the Fund may take large portfolio exposures to specific countries, market sectors, market movements or other investment insights. 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.

## Results of Operations

During the year, Canso employed its bottom-up process to buy and sell securities for the Fund. The Fund’s positioning and performance is consistent with the Fund’s fundamental investment objective and strategies.

The Fund returns for the year were 10.76% for Series A, 16.07% for Series C, and 11.21% for Series F.

The net assets of the Fund increased to \$60.4 million at December 31, 2021 from \$22.8 million at the beginning of the year. This was mainly due to net subscriptions of \$34.7 million during the year.

On February 20, 2020, the trustee and investment fund manager of the Fund changed from Canso Fund Management Ltd., an affiliate of the Manager, to the Manager. Prior to May 11, 2020, securities of the Fund were offered only on a private placement basis. On May 11, 2020, the Fund became a reporting issuer by

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filing a prospectus with securities regulatory authorities in each province and territory in Canada. While these were fundamental changes that occurred to the Fund, neither the Manager nor the Portfolio Manager are of the view that these changes affected the Fund's investment strategies in any material fashion.

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 or have been described below.

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

## Recent Developments

Investors entered the new year concerned with medical, economic and political challenges. In the U.S., the Democrats won control of the Senate, paving the way for the new administration to pass a larger stimulus package. Fiscal policy relief did not immediately allay investor concerns over increased COVID-19 cases and the impact of renewed lockdown measures. However, views changed rapidly as the vaccine rollout gathered pace and the prospect for an economic reopening crystallized. Economists quickly altered forecasts predicting a stronger recovery and higher inflation. Reassurance from the Federal Reserve that short rates would remain near zero, coupled with government support for the economy proved good news for equity markets but less so for bond markets as yields moved sharply higher for much of the year.

As inflation pushed to its highest level since the 1980s, government bond yields rose. Central bankers began to increasingly signal that higher interest rates were on the way some time in 2022. The view that higher inflation was only transient increasingly fell by the wayside as cost pressures and higher wage demands were also drivers of the higher inflation numbers.

In Canada, the housing market continued to be strong. Continued low mortgage rates was the main driver. Higher commodity prices also brightened the prospects for exports and business investment. Low interest rates also propelled risky assets upward and equity markets posted double digit returns for the year.

Signs of rampant speculation were increasingly apparent as the year wore on, whether it was in crypto-currencies, growth in very speculative venture capital deals, or the low and shrinking compensation lenders earned from high yield bonds.

The emergence of the Omicron variant late in the year contributed to a market sell-off, especially in technology names with high valuations and for bonds to regain some of the value lost from earlier in the year. However, the bond rally was short lived and Canso expects selloffs to continue as rising yields will deflate asset values for some time. This will come as a shock to younger investors who have never experienced negative returns from bonds. In Canso's view, the outlook for financial asset returns is not optimistic, with the greatest risk in highly valued or highly levered investments.

Credit spread tightening in pandemic affected issuers and a rise in equity-like holdings led performance higher in the second half of the year. Spreads continued to tighten after hitting decade wide levels in early 2020. Pandemically affected companies rebounded as economies continue to normalize.

The Fund reduced its weight in BB & below rated securities from 63.1% to 35.1% in the period while also bringing down its hedged long/short exposure. The Fund is improving its credit quality by investing in high-quality, liquid positions, including Federal Government securities and investment-grade floating rate notes. Floating rate exposure allows us to mitigate interest rate risk while still being able to benefit from credit spread tightening. We continue to only take on duration when we believe we are being compensated for the incremental interest rate risk or where we are able to effectively hedge by shorting government securities. The Fund finished the period with a -13% short position in government securities, which are offset by corresponding long corporate bond positions, and a positive cash balance. Fund duration is 1.8 years.

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 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.

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The Fund paid \$291,318 (including HST) in management fees to the Manager for the year ended December 31, 2021 (December 31, 2020 - \$103,484).

The Manager is also entitled to receive a performance fee from Series A and F units of the Fund (the "Performance Fee") under certain conditions as described in the Fund's most recently filed Prospectus. For the year ended December 31, 2021, the Performance Fee accrued and payable by the Fund was \$1,011,486 (including HST) (December 31, 2020 - \$370,730).

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 the Portfolio Manager 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 \$141,316 (including HST) to the Portfolio Manager for the year ended December 31, 2021 (December 31, 2020 - \$46,101).

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.

# Lysander-Canso Credit Opportunities Fund

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## Financial Highlights

### Series A\*

Year ended	31-Dec-2021		31-Dec-2020	
<b>Net assets per unit<sup>1</sup></b>				
Net assets, beginning of year	\$	11.74	\$	-
Operations:				
Total revenue		0.53		0.42
Total expenses		(0.58)		(0.27)
Realized gains (losses)		0.68		0.32
Unrealized gains (losses)		0.51		2.03
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$</b>	<b>1.14</b>	<b>\$</b>	<b>2.50</b>
Distributions:				
From income (excluding dividends)	\$	(0.37)	\$	(0.58)
From dividends		(0.05)		(0.05)
From capital gains		(0.32)		(0.75)
<b>Total distributions<sup>2 3</sup></b>	<b>\$</b>	<b>(0.74)</b>	<b>\$</b>	<b>(1.38)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$</b>	<b>12.44</b>	<b>\$</b>	<b>11.74</b>
<b>Ratios and supplemental data</b>				
Net asset value <sup>4</sup>	\$	2,643,911	\$	988,854
Units outstanding		212,520		84,203
Management expense ratio <sup>5</sup>	%	4.68	%	3.75
Management expense ratio before waivers or absorption		4.82		4.13
Portfolio turnover rate <sup>6</sup>		43.80		32.31
Trading expense ratio <sup>7</sup>		-		0.02
Net asset value per unit, end of year	\$	12.44	\$	11.74

### Notes

\* Series A commenced operations on May 11, 2020 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.

# Lysander-Canso Credit Opportunities Fund

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## Series C\*

Year ended	31-Dec-2021		31-Dec-2020	
<b>Net assets per unit<sup>1</sup></b>				
Net assets, beginning of year	\$	13.68	\$	12.14
Operations:				
Total revenue		0.66		0.72
Total expenses		(0.13)		(0.10)
Realized gains (losses)		0.81		1.06
Unrealized gains (losses)		0.84		3.17
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$</b>	<b>2.18</b>	<b>\$</b>	<b>4.85</b>
Distributions:				
From income (excluding dividends)	\$	(0.39)	\$	(0.35)
From dividends		(0.04)		(0.03)
From capital gains		(0.27)		(0.33)
<b>Total distributions<sup>2 3</sup></b>	<b>\$</b>	<b>(0.70)</b>	<b>\$</b>	<b>(0.71)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$</b>	<b>15.17</b>	<b>\$</b>	<b>13.68</b>
<b>Ratios and supplemental data</b>				
Net asset value <sup>4</sup>	\$	2,426,610	\$	2,090,691
Units outstanding		159,921		152,830
Management expense ratio <sup>5</sup>	%	0.85	%	0.86
Management expense ratio before waivers or absorption		1.04		1.43
Portfolio turnover rate <sup>6</sup>		43.80		32.31
Trading expense ratio <sup>7</sup>		-		0.02
Net asset value per unit, end of year	\$	15.17	\$	13.68

## Notes

\* The Fund became a reporting issuer on May 11, 2020 and accordingly prior period numbers are not available.

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**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-2021		31-Dec-2020	
<b>Net assets per unit<sup>1</sup></b>				
Net assets, beginning of year	\$	10.22	\$	9.47
Operations:				
Total revenue		0.47		0.58
Total expenses		(0.47)		(0.47)
Realized gains (losses)		0.55		0.39
Unrealized gains (losses)		0.50		1.92
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$</b>	<b>1.05</b>	<b>\$</b>	<b>2.42</b>
Distributions:				
From income (excluding dividends)	\$	(0.24)	\$	(0.42)
From dividends		(0.04)		(0.04)
From capital gains		(0.29)		(0.56)
<b>Total distributions<sup>2 3</sup></b>	<b>\$</b>	<b>(0.57)</b>	<b>\$</b>	<b>(1.02)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$</b>	<b>10.96</b>	<b>\$</b>	<b>10.22</b>
<b>Ratios and supplemental data</b>				
Net asset value <sup>4</sup>	\$	55,314,631	\$	19,745,200
Units outstanding		5,047,372		1,932,671
Management expense ratio <sup>5</sup>	%	4.32	%	4.91
Management expense ratio before waivers or absorption		4.47		5.40
Portfolio turnover rate <sup>6</sup>		43.80		32.31
Trading expense ratio <sup>7</sup>		-		0.02
Net asset value per unit, end of year	\$	10.96	\$	10.22

## Notes

\* The Fund became a reporting issuer on May 11, 2020 and accordingly prior period numbers are not available.

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# Lysander-Canso Credit Opportunities Fund

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## Management Fees

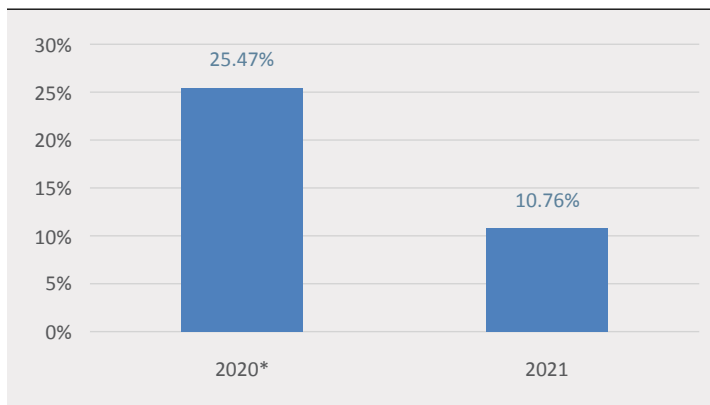
The Manager provides or arranges the provision of all general management and administrative services required by the Fund, and as described in the section “Related Party Transactions” above.

In consideration for such services, the Manager receives a management fee, based on the net asset value of each Series, calculated daily and payable monthly. Effective May 11, 2020, the Fund paid a management fee of 1.25% per annum for Series A units, 0.50% per annum for Series C and 0.75% (formerly 1.00%) per annum for Series F units.

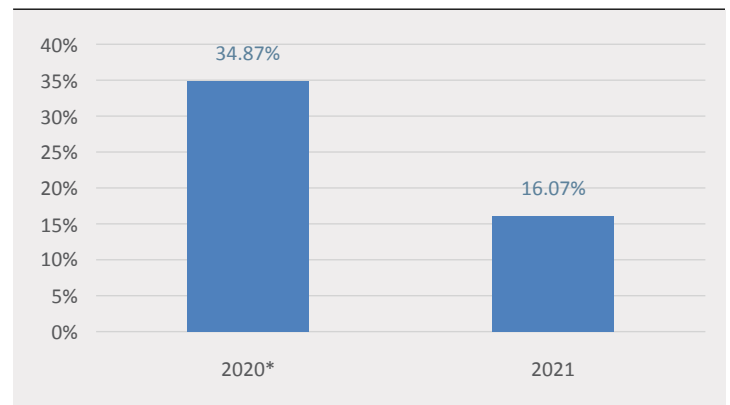
Service fees or trailing commissions of a maximum of 0.50% per annum are paid on Series A units to dealers. This comprises approximately 40% of the management fee of Series A units.

## Year-by-Year Returns

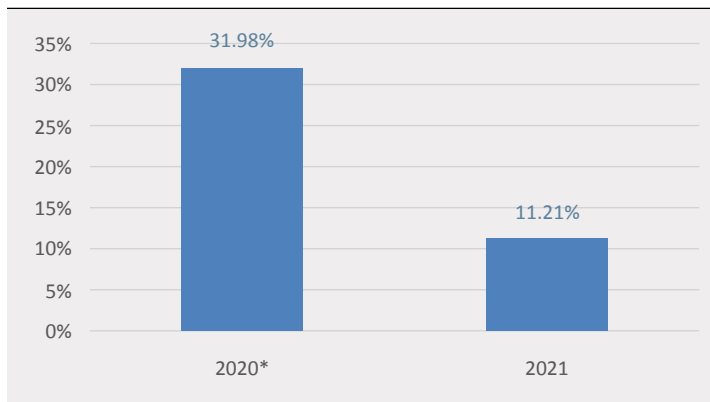
### Series A



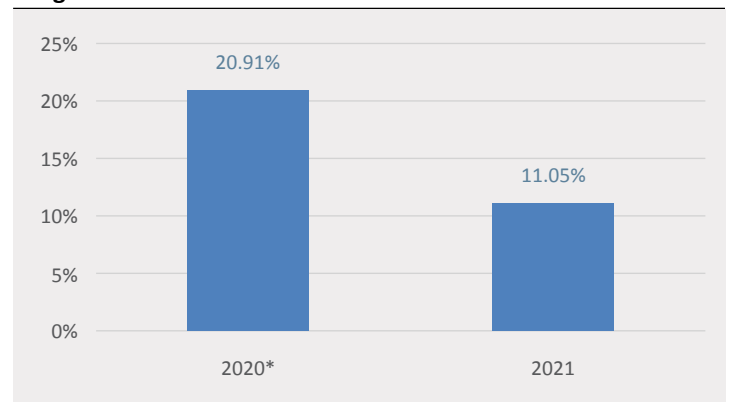
### Series C



### Series F



### Long Portfolio



## Past Performance

The Fund became a reporting issuer on May 11, 2020. Accordingly, returns are shown for the relevant period/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.

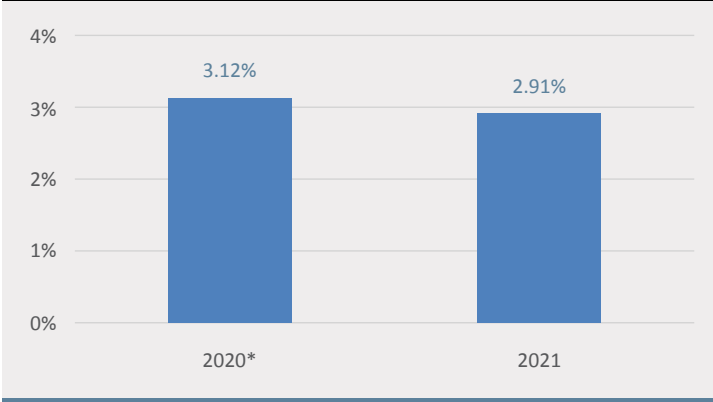
\* For the period May 11 to December 31



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## Short Portfolio



\* For the period May 11 to December 31

# Lysander-Canso Credit Opportunities Fund

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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, 2021		1 Year	Since Inception <sup>2</sup>
<b>Annual Compound Return</b>			
Series A <sup>1</sup>	%	10.76	% 22.26
Series C <sup>1</sup>		16.07	31.49
Series F <sup>1</sup>		11.21	26.40
Long Portfolio		11.05	17.82
Short Portfolio		2.91	3.98
Index <sup>3</sup>	%	(1.34)	% 2.96

### 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> Period starting from May 11, 2020. Since inception returns are annualized.

<sup>3</sup> FTSE Canada Global Debt Capital Markets. Copyright © FTSE Canada Global Debt Capital Markets. All rights reserved. FTSE Canada Global Debt Capital Markets Inc ("FTDCM"), FTSE International Limited ("FTSE"), the London Stock Exchange Group companies (the "Exchange") or TSX INC. ("TSX" and together with FTDCM, FTSE and the Exchange, the "Licensor Parties"). The Licensor Parties make no warranty or representation whatsoever, expressly or impliedly, either as to the results to be obtained from the use of the FTSE Canada Canada Indices ("the Indices") and/or the figure at which the said Indices stand at any particular time on any particular day or otherwise. The Indices are compiled and calculated by FTDCM and all copyright in the Indices values and constituent lists vests in FTDCM. The Licensor Parties shall not be liable (whether in negligence or otherwise) to any person for any error in the Indices and the Licensor Parties shall not be under any obligation to advise any person of any error therein.

# Lysander-Canso Credit Opportunities Fund

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## Summary of Investment Portfolio

		% of NAV			% of NAV
<b>Top 25 Issuers</b>			<b>Asset Mix</b>		
Long positions:			Canadian Equities	%	1.8
Cash and Cash Equivalents	%	7.6	Canadian Fixed Income		56.9
Air Canada (Debt)		6.1	Cash and Cash Equivalents		7.6
Bank Of Nova Scotia (Debt)		4.8	Fixed Income - Short		(13.1)
Transcanada Pipelines (Debt)		4.8	Foreign Equities		2.5
Manulife Financial Corporation (Debt)		4.6	Foreign Fixed Income		24.8
Pembina Pipeline Corporation (Debt)		4.5	Preferred Shares		5.4
Canadian Imperial Bank of Commerce (Debt)		4.4	Private Placements		1.3
Spirit Aerosystems Inc. (Debt)		4.2	Other Assets less Liabilities		12.8
American Airlines Inc. (Debt)		3.8	<b>Total</b>	<b>%</b>	<b>100.0</b>
Home Trust NHA MBS (Debt)		3.4	<b>Sector</b>		
Bombardier Inc. (Debt)		3.4	Cash and Cash Equivalents	%	7.6
Avis Budget Group, Inc. (Debt)		3.3	Communication Services		5.1
Merrill Lynch NHA MBS (Debt)		2.8	Consumer Discretionary		2.1
Hertz Global Holdings Inc. (Equity)		2.5	Consumer Staples		0.1
Royal Bank Of Canada (Debt)		2.3	Energy		19.9
Occidental Petroleum Corporation (Debt)		2.3	Federal		(5.9)
AMC Entertainment Holdings Inc. (Debt)		1.9	Financials		28.4
Ford Credit Canada Company (Debt)		1.8	Industrials		27.7
Maxar Technologies Inc (Debt)		1.8	Information Technology		2.2
Bank Of Montreal (Debt)		1.8	Other Assets less Liabilities		12.8
JP Morgan Chase & Co (Debt)		1.8	<b>Total</b>	<b>%</b>	<b>100.0</b>
Suncor Energy Inc. (Debt)		1.7			
AT&T Inc (Debt)		1.7			
Short positions:					
U.S. Treasury Bond (Debt)		(3.2)			
Government of Canada (Debt)		(9.8)			
<b>Total</b>	<b>%</b>	<b>64.3</b>			
Total Portfolio Long Positions	%	113.1			
Total Portfolio Short Positions		(13.1)			



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