

**Annual Management Report of Fund Performance**  
As at December 31, 2021

Canso Credit Income Fund



# 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, 2021 but does not contain the complete financial statements of the investment fund year ended December 31, 2021. 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 investment 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 primarily in corporate bonds and other income securities.

## Investment Strategies

The Fund's portfolio manager is Canso Investment Counsel Ltd. (“Canso” or “Portfolio Manager”), a company under common control as the Manager. The Fund's 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 15.50% for Class A units and 17.40% for Class F units. At the end of the year, the Fund held approximately 29.6% of its net asset value in short positions. These consisted of short positions in Government of Canada bonds and U.S. Treasury bonds.

The net assets of the Fund were \$160.5 million at December 31, 2021 compared to \$144.1 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 \$5.2 million and net redemptions of approximately \$757,000.

For the year, the Fund paid a performance fee of approximately \$7.7 million equal to 20% of its outperformance of the FTSE Canada All Corporate Bond Index.

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 as described below.

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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 below BBB rated securities from 56.5% to 46.6% in the year while also bringing down its hedged long/short exposure. The Fund is improving the credit quality of its portfolio by investing in high-quality, liquid positions, including Federal Government securities and investment-grade floating rate notes. Floating rate exposure allows the Fund to mitigate interest rate risk while still being able to benefit from credit spread tightening. Canso continues to only take on duration when, in Canso's view, the Fund is being compensated for the incremental interest rate risk or where it is able to effectively hedge by shorting government securities. The Fund finished the year with a -29.6% short position in government securities, which are offset by corresponding long corporate bond positions, and a positive cash balance. The Fund's portfolio's average duration is 2.4 years as of the end of the year.

At the end of the year, the Fund held long positions that were approximately 129.6% 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 involving the Fund.

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 \$1,168,119 (excluding HST) in management fees to the Manager for the year ended December 31, 2021 (December 31, 2020 - \$1,052,349).

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, 2021, the Performance

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Fee accrued payable by the Fund was \$7,767,526 (excluding HST) (December 31, 2020 -\$4,855,870).

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 \$6,759,143 (excluding HST) to the Portfolio Manager for the year ended December 31, 2021 (December 31, 2020 - \$4,375,793) 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-2021	31-Dec-2020	31-Dec-2019	31-Dec-2018	31-Dec-2017
<b>Net assets per unit<sup>1</sup></b>					
Net assets, beginning of year	\$ 13.69	\$ 11.34	\$ 10.70	\$ 11.65	\$ 11.32
Operations:					
Total revenue	1.20	1.45	0.75	0.49	0.78
Total expenses	(1.17)	(0.84)	(0.34)	(0.30)	(0.41)
Realized gains (losses)	1.88	1.25	(0.15)	0.21	0.21
Unrealized gains (losses)	0.18	0.67	0.88	(0.84)	0.21
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ 2.09</b>	<b>\$ 2.53</b>	<b>\$ 1.14</b>	<b>\$ (0.44)</b>	<b>\$ 0.79</b>
Distributions:					
From income (excluding dividends)	\$ (0.41)	\$ (0.31)	\$ -	\$ (0.11)	\$ (0.52)
From dividends	(0.08)	(0.07)	(0.02)	(0.03)	(0.02)
From capital gains	(1.70)	(1.70)	-	-	-
From return of capital	-	-	(0.48)	(0.36)	-
<b>Total distributions<sup>2 3</sup></b>	<b>\$ (2.19)</b>	<b>\$ (2.08)</b>	<b>\$ (0.50)</b>	<b>\$ (0.50)</b>	<b>\$ (0.54)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$ 15.29</b>	<b>\$ 13.69</b>	<b>\$ 11.34</b>	<b>\$ 10.70</b>	<b>\$ 11.65</b>

<b>Ratios and supplemental data</b>					
Net asset value <sup>4</sup> (thousands)	\$ 152,808	\$ 132,886	\$ 142,866	\$ 138,957	\$ 153,038
Units outstanding	9,992,726	9,706,083	12,603,943	12,986,466	13,139,530
Management expense ratio <sup>5</sup>	% 6.85	% 5.40	% 1.52	% 1.50	% 2.73
Management expense ratio before waivers or absorption	6.85	5.40	1.52	1.50	2.73
Portfolio turnover rate <sup>6</sup>	37.82	86.43	48.10	34.94	43.11
Trading expense ratio <sup>7</sup>	0.01	-	0.01	0.02	0.01
Net asset value per unit, end of year	15.29	13.69	11.34	10.70	11.65
Closing Market price per unit <sup>4</sup>	\$ 15.15	\$ 13.41	\$ 10.90	\$ 11.16	\$ 11.32

### 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 2017, 2020 and 2021 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. Prior to July 1, 2020, the Fund paid servicing fees at 0.40% per annum on Class A units. On July 1, 2020, the Fund discontinued the payment of servicing fees.
- 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-2021	31-Dec-2020	31-Dec-2019	31-Dec-2018	31-Dec-2017
<b>Net assets per unit<sup>1</sup></b>					
Net assets, beginning of year	\$ 15.01	\$ 12.39	\$ 11.62	\$ 12.55	\$ 12.14
Operations:					
Total revenue	1.32	1.57	0.82	0.53	0.85
Total expenses	(1.11)	(0.88)	(0.32)	(0.28)	(0.41)
Realized gains (losses)	1.88	1.35	(0.16)	0.23	0.20
Unrealized gains (losses)	0.59	0.55	0.94	(0.88)	0.27
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ 2.68</b>	<b>\$ 2.59</b>	<b>\$ 1.28</b>	<b>\$ (0.40)</b>	<b>\$ 0.91</b>
Distributions:					
From income (excluding dividends)	\$ (0.30)	\$ (0.37)	\$ -	\$ (0.1)	\$ (0.53)
From dividends	(0.06)	(0.08)	(0.02)	(0.04)	(0.03)
From capital gains	(2.87)	(1.77)	-	-	-
From return of capital	-	-	(0.48)	(0.36)	-
<b>Total distributions<sup>2 3</sup></b>	<b>\$ (3.23)</b>	<b>\$ (2.22)</b>	<b>\$ (0.50)</b>	<b>\$ (0.50)</b>	<b>\$ (0.56)</b>
<b>Net assets, end of year<sup>2 3</sup></b>	<b>\$ 17.09</b>	<b>\$ 15.01</b>	<b>\$ 12.39</b>	<b>\$ 11.62</b>	<b>\$ 12.55</b>
<b>Ratios and supplemental data</b>					
Net asset value <sup>4</sup> (thousands)	\$ 7,747	\$ 11,253	\$ 13,749	\$ 17,052	\$ 20,160
Units outstanding	453,278	749,740	1,109,959	1,467,453	1,606,525
Management expense ratio <sup>5</sup>	% 5.77	% 5.21	% 1.16	% 1.14	% 2.51
Management expense ratio before waivers or absorption	5.77	5.21	1.16	1.14	2.51
Portfolio turnover rate <sup>6</sup>	37.82	86.43	48.1	34.94	43.11
Trading expense ratio <sup>7</sup>	0.01	-	0.01	0.02	0.01
Net asset value per unit, end of year	\$ 17.09	\$ 15.01	\$ 12.39	\$ 11.62	\$ 12.55

## 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.
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- 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. Prior to July 1, 2020, the Fund paid servicing fees at 0.40% per annum on Class A units. On July 1, 2020, the Fund discontinued the payment of servicing fees.
- 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.

The Fund may also pay a performance fee under certain conditions as described in the Fund's most recent Annual Information Form.

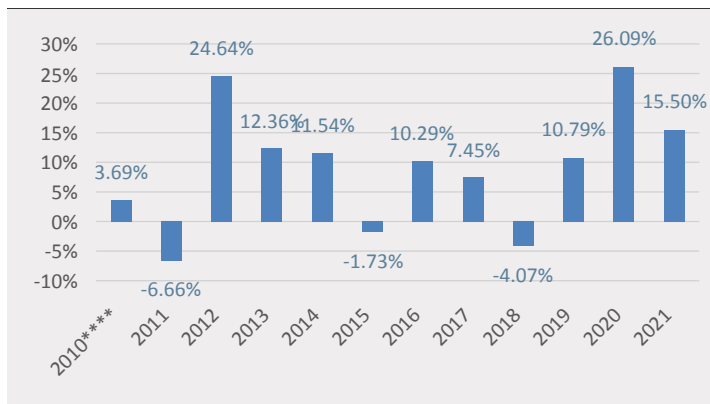
## Past Performance

The following charts and table show the past performance of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown assumes that cash distributions made by the Fund in the years/periods shown were reinvested in additional units of the Fund.

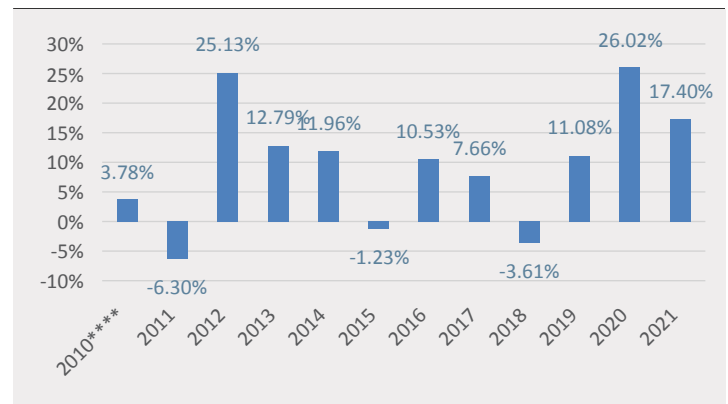
Prior to June 25, 2015, the Fund used a fund-on-fund investment strategy whereby the Fund gained exposure to Canso Credit Trust through a forward agreement. On June 25, 2015, as a result of changes to the Income Tax Act (Canada), CCIF changed its investment objectives, ceased to use a fund-on-fund strategy and began investing in securities directly. In addition, prior to July 1, 2020, the Fund paid servicing fees at 0.40% per annum on Class A units. On July 1, 2020, the Fund discontinued the payment of servicing fees. These changes could have affected the performance of the Fund or a class of units of the Fund had these changes been in effect throughout the performance measurement period.

## Year-by-Year Returns

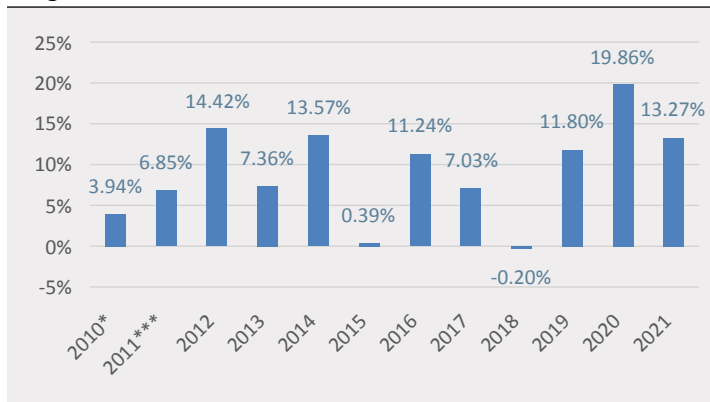
### Class A



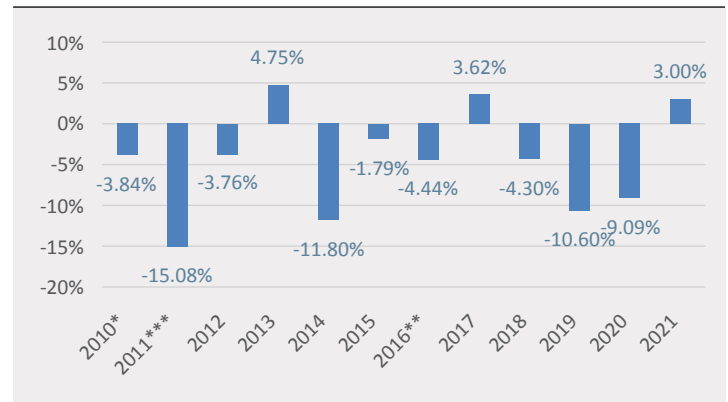
### Class F



### 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, 2021		1 Year	3 Year <sup>2</sup>	5 Year <sup>2</sup>	10 Year <sup>2</sup>
<b>Annual Compound Return</b>					
Class A <sup>1</sup>	%	15.50	% 17.27	% 10.70	% 10.90
Class F <sup>1</sup>		17.40	17.99	11.25	11.38
Long Portfolio <sup>1</sup>		13.27	14.87	10.12	9.70
Short Portfolio <sup>1</sup>		3.00	(5.75)	(3.65)	(3.60)
FTSE Canada All Corporate Bond Index <sup>3</sup>	%	(1.34)	% 5.05	% 3.91	% 4.05

### 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> 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.



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## Summary of Investment Portfolio

	% of NAV	% of NAV
<b>Top 25 Issuers</b>		
Long positions:		
Air Canada (Debt)	7.9	
Manulife Financial Corp. (Debt)	7.3	
Strait Crossing Development Inc. (Debt)	5.9	
Yellow Pages Limited (Equity)	5.5	
Royal Bank of Canada (Debt)	5.4	
Pembina Pipeline Corporation (Debt)	5.0	
Spirit Aerosystems Inc. (Debt)	4.8	
American Airlines Inc (Debt)	4.6	
GE Capital Canada (Debt)	4.5	
Cash and Cash Equivalents	4.5	
Bank of Nova Scotia (Debt)	4.3	
TC Energy Corporation (Debt)	4.3	
Bombardier Inc. (Debt)	4.3	
AT&T Inc. (Debt)	4.1	
Avis Budget Group, Inc. (Debt)	4.0	
Hertz Global Holdings Inc. (Equity)	4.0	
Maxar Technologies Inc. (Debt)	3.5	
Occidental Petroleum Corporation (Debt)	3.2	
Continental Resources, Inc. (Debt)	3.0	
Enbridge Inc. (Debt)	2.9	
Shaw Communications Inc (Debt)	2.7	
Videotron Ltee. (Debt)	2.7	
Thomson Reuters Corporation (Equity)	2.6	
Short positions:		
U.S. Treasury Bond (Debt)	(6.3)	
Government of Canada (Debt)	(23.3)	
<b>Total</b>	<b>71.4</b>	
Total Portfolio Long Positions	129.6	
Total Portfolio Short Positions	(29.6)	
<b>Asset Mix</b>		
Canadian Bonds - Corporate	73.5	
Foreign Bonds - Corporate	35.7	
Canadian Equities	16.5	
Foreign Equities	4.0	
Canadian Government Debt - Short	(23.3)	
Foreign Government Debt - Short	(6.3)	
Cash and Cash Equivalents	4.5	
Other Assets less Liabilities	(4.6)	
<b>Total</b>	<b>100.0</b>	



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