

# **Canso Select Opportunities Fund**

Semi-Annual Management Report of Fund Performance

June 30, 2016



Lysander Funds



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# **Canso Select Opportunities Fund**

## **Semi-Annual Management Report of Fund Performance**

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### ***Management Report of Fund Performance***

As at June 30, 2016

#### ***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.

# **Canso Select Opportunities Fund**

## **Semi-Annual Management Report of Fund Performance**

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### ***Management Report of Fund Performance***

As at June 30, 2016

This semi-annual management report of fund performance of Canso Select Opportunities Fund (the “Fund”) contains financial highlights 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, 2016. 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 us at 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 us 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.

### ***Management Discussion of Fund Performance***

#### ***Investment Objective and Strategies***

Canso Select Opportunities Fund (the “Fund”) is a closed-end investment fund managed by Lysander Funds Limited (the “Manager”). The Class A units of the Fund (“Class A Units”) trade under the symbol SCW.UN on the Toronto Stock Exchange (“TSX”). The Fund also has issued and outstanding Class F units (the “Class F Units” and together with the Class A Units, the “Units”) which are not listed on the TSX. The Fund was created to hold a portfolio of securities (the “Portfolio”) comprised of global debt and equity securities. The Portfolio is managed by Canso Investment Counsel Ltd. (“Canso” or “Portfolio Manager”).

The Fund was created to achieve the following investment objectives (i) to maximize total returns for holders of Units (“Unitholders”), and (ii) to provide Unitholders with attractive monthly cash distributions, by investing in an actively managed, diversified portfolio consisting primarily of Canadian and global debt and equity securities.

The Fund’s positions will include investments primarily in Canadian and global debt and equity securities. Debt securities held by the Fund could include fixed rate bonds and debentures, floating rate notes and bank loans. Equity securities held by the Fund could include common shares, preferred shares and convertible debentures. The Fund may hold cash or cash equivalents or invest in short term bonds or money market instruments for liquidity or defensive purposes. The Fund may invest in fixed-income debt securities of governments, government agencies, supranational agencies and companies when Canso believes the potential return will equal or exceed that available from investments in corporate securities. The Fund is able to short securities, primarily government bonds against its long holdings. This allows it to benefit from the additional yield or capital gain potential of the long positions in the Portfolio, while hedging the interest rate risk of those positions. At the end of the year, the Fund held long positions of 141% of the net asset value of the Fund and short positions that were approximately 41% of the net asset value of the Fund.

#### ***Risks***

No changes affecting the overall level of risk associated with investing in the Fund were made during the period. The risks of this Fund remain as discussed in the Fund’s most recent prospectus or its amendments.

#### ***Results of Operations***

The Fund’s net asset value declined in the period, with weakness in some of its equity holdings. At period-end, the Fund had over 67% of its net assets invested in equities. Detractors from performance in the period included Blackberry equity. Its share price declined over 30% as the company strives for overall revenue growth. Their software business is small but growing, but this has been offset by stagnant sales of handsets and continued declines in service revenues from telecom carriers on their legacy devices. Postmedia equity declined to almost zero as the company’s print revenues declined more than expected and they struggled under a high debt load. Subsequent to the end of the period on July 7, the company announced a proposed re-capitalization transaction that would reduce their outstanding debt and interest costs. In addition, the Fund’s equity holdings in Commerzbank, Royal Bank of Scotland, and Unicredit all declined after the unexpected vote in the UK in late June to leave the European Union. On the positive side, shares in Bombardier posted a significant recovery and were up over 40% in the period as the company announced major orders for its new C-series aircraft. The share price of Yellow Pages was up almost 20% as the company continued to execute on its transformation to digital and to pay down its debt.

# **Canso Select Opportunities Fund**

## **Semi-Annual Management Report of Fund Performance**

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### ***Management Discussion of Fund Performance - continued***

The net assets of the Fund decreased to \$53,627,119 at June 30, 2016 from \$88,415,984 at December 31, 2015. This was due to market value declines, cash distributions of \$2,124,073 and redemptions of \$21,641,243 during the period.

### ***Report on Borrowing***

The Fund had borrowings for hedging and non-hedging purposes in accordance with its mandate. As discussed above, the Portfolio consists of both long and short positions. This exposes the Fund to a variety of risks resulting from selling securities short. Selling securities short may result in the loss of an amount greater than the amount invested since there is theoretically no limit to the price to which the securities that have been sold short may rise before the short position is closed out. In addition, the supply of securities which can be borrowed in order to maintain short positions fluctuates from time to time. There is no assurance that the lender of securities or financial instruments will not require the security to be repaid before Canso wishes to do so, thereby requiring the Fund to borrow the security elsewhere or purchase the security in the market at an unattractive price. In addition, the borrowing of securities entails the payment of a borrowing fee. There is no assurance that any borrowing fee will not increase during the borrowing period, adding to the expense of a short sale strategy. In addition, there is no assurance that a security sold short can be repurchased due to supply and demand constraints in the marketplace.

### ***Recent Developments***

During the period, the Fund participated in a refinancing of Tuckamore Capital's existing debt through a combination of senior secured notes and convertible bonds. Tuckamore has withstood the downturn in the oil and gas industry by diligently controlling costs and maintaining margins. It has also offloaded its non-core businesses that were a drag to profitability. Canso believes that the new financing has improved the company's financial flexibility to allow it to focus its efforts on its key asset, ClearStream and execute on its business plan. The Fund also participated in the distressed bonds of Intelsat Jackson, the operator of the world's largest satellite services business at high yields of between 10-19%. Intelsat's services are used by the world's leading media and telecom companies. The company faces extensive competition and refinancing risk in the near term, but Canso believes that the potential value of the notes far outweighs their current trading price.

No changes are anticipated to the Manager or Portfolio Manager, and no change of control of the Manager or Portfolio Manager is expected. No reorganizations, mergers or similar transactions are planned and any additional offering of Units would be made in accordance with the declaration of trust of the Fund.

There were no changes to the membership of the Fund's Independent Review Committee ("IRC").

# **Canso Select Opportunities Fund**

## **Semi-Annual Management Report of Fund Performance**

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### ***Management Discussion of Fund Performance - continued***

#### ***Related Party Transactions***

The Manager receives a management fee from the Fund equal to 1.00% per annum of the net asset value of the Fund, calculated and payable monthly in arrears, plus applicable taxes. For the period ended June 30, 2016, the management fee earned was \$370,492 excluding HST (June 30, 2015: \$545,904).

The Manager is also entitled to receive a performance fee from the Fund (the "Performance Fee") under certain conditions as described in the Prospectus. For the period ended June 30, 2016, the performance fee accrued payable by the Fund was Nil excluding HST (June 30, 2015: \$1,587,260).

Pursuant to investment advisory agreements, the Manager has retained Canso to provide investment advisory and portfolio management services to the Manager and the Fund. The Manager and Canso are related parties. Out of the management fee the Manager receives for managing the Fund, the Manager pays a fee to Canso for the investment advisory and portfolio management services that Canso provides. 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.

For the period ended June 30, 2016 the fees paid by the Manager to Canso amounted to \$185,246 (June 30, 2015: \$1,553,359) for investment advisory, portfolio management services and crystallized performance fees.

The Fund did not rely on any approval, positive recommendation or standing instruction from its IRC with respect to any related party transactions.

#### ***Management Fees***

Please refer to the discussion under the heading "Related Party Transactions" for a discussion of the management fees paid by the Fund.

# Canso Select Opportunities Fund

## Semi-Annual Management Report of Fund Performance

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### Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the periods ended June 30, 2016 and December 31, 2015, 2014 and 2013:

Class A	Period ended	June 30, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013
<b>Series Net assets Per Unit <sup>1</sup></b>					
	Net assets, beginning of period	\$9.91	\$11.09	\$10.10	\$10.00
	<b>Increase (decrease) from operations:</b>				
	Total revenue	0.24	0.47	0.66	0.12
	Total expenses	(0.17)	(0.31)	(0.65)	(0.10)
	Realized gains (losses)	(0.11)	2.04	0.20	(0.02)
	Unrealized gains (losses)	(1.24)	(2.85)	1.27	0.79
	<b>Total increase (decrease) from operations <sup>4</sup></b>	<b>(1.28)</b>	<b>0.65</b>	<b>1.48</b>	<b>0.79</b>
	<b>Distributions:</b>				
	From income (excluding dividends)	(0.25)	-	-	-
	From capital gain	-	(1.37)	(0.20)	-
	Return of capital	-	-	(0.30)	(0.08)
	<b>Total Distributions<sup>2</sup></b>	<b>(0.25)</b>	<b>(1.37)</b>	<b>(0.50)</b>	<b>(0.08)</b>
	<b>Net assets, end of period <sup>1</sup></b>	<b>\$8.22</b>	<b>\$9.91</b>	<b>\$11.09</b>	<b>\$10.10</b>

\*The Fund commenced operations on October 22, 2013

#### Notes

1. The information is derived from the Fund's unaudited semi-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 number 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. Total distributions in 2015 were paid in cash (\$0.50/unit) and special non-cash distributions (\$0.8724/unit). Prior year distributions were paid in cash.

# Canso Select Opportunities Fund

## Semi-Annual Management Report of Fund Performance

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Class F	Period ended	June 30, 2016	December 31, 2015	December 31, 2014	December 31, 2013
<b>Series Net assets Per Unit <sup>1</sup></b>					
	Net assets, beginning of period	\$10.24	\$11.43	\$10.35	\$10.00
	<b>Increase (decrease) from operations:</b>				
	Total revenue	0.25	0.49	0.69	0.12
	Total expenses	(0.18)	(0.32)	(0.62)	(0.17)
	Realized gains (losses) for the period	(0.10)	2.15	0.20	(0.02)
	Unrealized gains (losses) for the period	(1.39)	(2.96)	1.31	0.81
	<b>Total increase (decrease) from operations <sup>4</sup></b>	<b>(1.42)</b>	<b>(0.64)</b>	<b>1.58</b>	<b>0.74</b>
	<b>Distributions:</b>				
	From income (excluding dividends)	(0.25)	-	-	-
	From capital gain	-	(1.46)	(0.20)	-
	Return of capital	-	-	(0.30)	(0.08)
	<b>Total Distributions <sup>2</sup></b>	<b>(0.25)</b>	<b>(1.46)</b>	<b>(0.50)</b>	<b>(0.08)</b>
	<b>Net assets, end of period <sup>1</sup></b>	<b>\$8.51</b>	<b>\$10.24</b>	<b>\$11.43</b>	<b>\$10.35</b>

\*The Fund commenced operations on October 22, 2013.

### Notes

1. The information is derived from the Fund's unaudited semi-annual financial statements. All per unit figures presented periods are referenced to net assets determined in accordance to IFRS.
2. Net assets and distributions are based on the actual number 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. Total distributions in 2015 were paid in cash (\$0.50/unit) and special non-cash distributions (\$0.9632/unit). Prior year distributions were paid in cash.

# Canso Select Opportunities Fund

## Semi-Annual Management Report of Fund Performance

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### *Ratios and Supplemental Data*

Class A	Period ended	June 30, 2016	December 31, 2015	December 31, 2014	December 31, 2013
	Total net asset value (000's) <sup>1</sup>	\$48,861	\$81,396	\$93,860	\$85,301
	Number of units outstanding <sup>1</sup>	5,941,376	8,211,297	8,466,388	8,445,844
	Management expense ratio <sup>2</sup>	2.24%	2.52%	4.35%	3.08%
	Management expense ratio before waivers or absorption <sup>2</sup>	2.24%	2.52%	4.35%	3.08%
	Trading expense ratio <sup>3</sup>	0.27%	0.25%	0.07%	0.50%
	Portfolio turnover rate <sup>4</sup>	6.3%	48.4%	59.5%	37.6%
	Net asset value per unit <sup>1</sup>	\$8.22	\$9.91	\$11.09	\$10.10
	Closing market price per unit <sup>1</sup>	\$7.95	\$9.59	\$10.77	\$10.50

\*The Fund commenced operations on October 22, 2013.

#### **Notes**

1. This information is provided as at the end of the period.
2. Management expense ratio is based on total expenses of the Fund (excluding commissions , other portfolio transaction costs and issuance costs) for the stated period and is expressed as an annualized percentage of monthly average net asset value during the period.
3. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of monthly average net asset value during the period.
4. 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 short positions are treated as sales but included as an absolute value to the portfolio average during the period in 2015, 2014 and restated in 2013. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

# Canso Select Opportunities Fund

## Semi-Annual Management Report of Fund Performance

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### ***Ratios and Supplemental Data***

<b>Class F</b>	<b>Period ended</b>	<b>June 30, 2016</b>	<b>December 31, 2015</b>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Total net asset value (000's) <sup>1</sup>		\$4,766	\$7,019	\$8,781	\$8,166
Number of units outstanding <sup>1</sup>		560,256	685,166	768,216	789,156
Management expense ratio <sup>2</sup>		2.27%	2.49%	3.88%	6.57%
Management expense ratio before waivers or absorption <sup>2</sup>		2.27%	2.49%	4.44%	6.57%
Trading expense ratio <sup>3</sup>		0.27%	0.25%	0.07%	0.50%
Portfolio turnover rate <sup>4</sup>		6.3%	48.4%	59.5%	37.6%
Net asset value per unit <sup>1</sup>		\$8.51	\$10.24	\$11.43	\$10.35

\*The Fund commenced operations on October 22, 2013.

#### **Notes**

1. This information is provided as at the end of the period.
2. Management expense ratio is based on total expenses of the Fund (excluding commissions, other portfolio transaction costs and initial issuance costs) for the stated period and is expressed as an annualized percentage of monthly average net asset value during the period.
3. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of monthly average net asset value during the period.
4. 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 short positions are treated as sales but included as an absolute value to the portfolio average during the period in 2015, 2014 and restated in 2013. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

# Canso Select Opportunities Fund

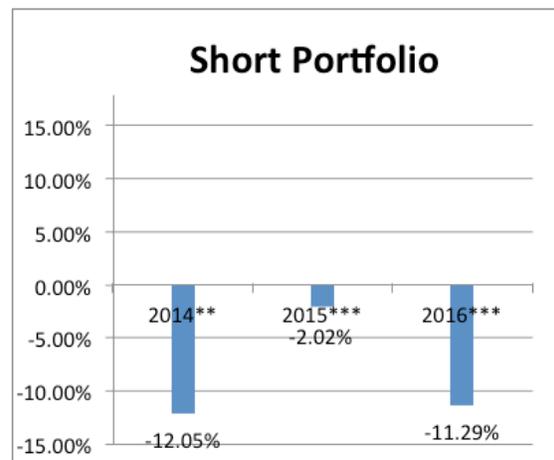
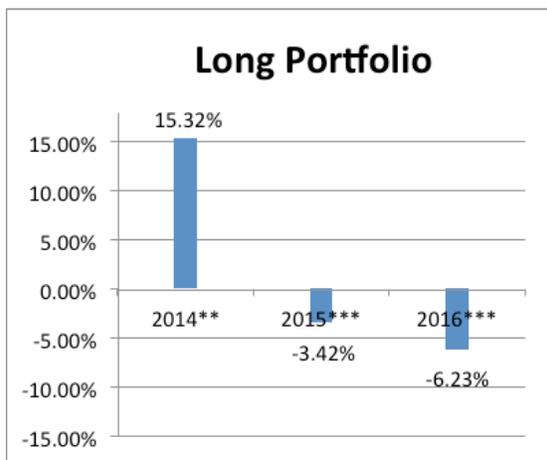
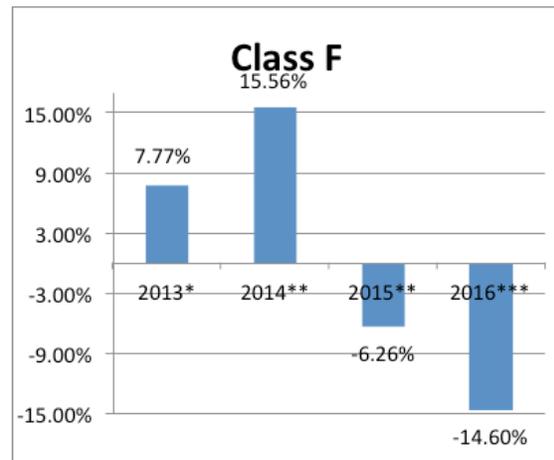
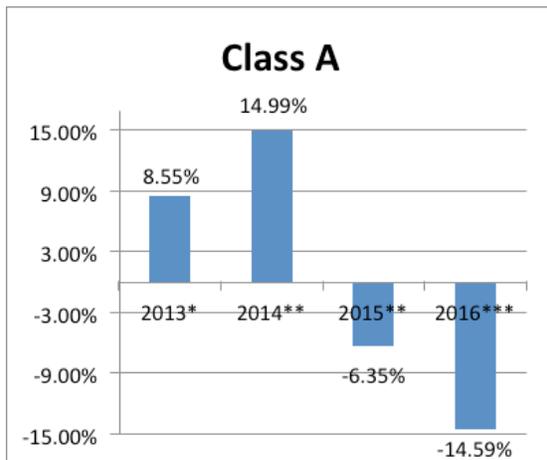
## Semi-Annual Management Report of Fund Performance

### 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 periods shown were reinvested in additional units of the Fund.

### Year – by – Year Returns

The bar charts show the Fund’s total return for Class A and Class F. Returns exclude security issuance costs which are not recurring. The charts show, in percentage terms, how an investment held on the first day of each period would have changed by the last day of the period. The long and short portfolio returns bar charts show gross of all fees.



\*For the period October 22 to December 31

\*\*For the period January 1 to December 31

\*\*\*For the period January 1 to June 30

# Canso Select Opportunities Fund

## Semi-Annual Management Report of Fund Performance

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### Summary of Investment Portfolio

As at June 30, 2016

#### Top 25 Issuers<sup>2</sup>

Long Positions	% of NAV	Asset Mix	% of NAV
Enbridge Inc (Debt)	11.2%	Canadian Bonds - Corporate	54.3%
Navient Corp (Debt)	10.7%	Foreign Bonds - Corporate	13.6%
Bombardier Inc (Equity)	7.9%	Canadian Equities	45.1%
Xplornet Communications Inc (Debt)	7.9%	Foreign Equities	27.5%
Loblaw Companies Limited (Debt)	7.8%	Canadian Equities - Short	-5.1%
Yellow Pages Limited (Equity)	7.6%	Canadian Government Debt - Short	-18.9%
Blackberry Ltd (Debt)	6.7%	Foreign Government Debt - Short	-17.1%
Strait Crossing Development (Debt)	6.6%	Cash and cash equivalents	2.9%
Hubba Inc (Equity)	6.3%	Other assets less liabilities	-2.2%
Shaw Communications Inc (Debt)	6.0%	Total	100.0%
Commerzbank AG (Equity)	5.8%		
SLM Corp (Equity)	5.8%		
Royal Bank Of Scotland Group plc (Equity)	4.9%		
Second Cup Ltd Canada (Equity)	4.8%		
Apple Inc (Equity)	4.1%		
Techmedianetwork Inc (Purch) (Equity)	4.1%		
Invescor Restaurant Group Inc (Equity)	4.1%		
Manulife Financial Corp (Equity)	3.5%		
Bank Of Nova Scotia (Equity)	3.0%		
Intelsat Jackson Holdings SA(Debt)	2.9%		

#### Short Positions

	% of NAV
Genworth MI Canada Inc (Equity)	-3.0%
U S Treasury Note (Debt)	-17.1%
Government of Canada (Debt)	-18.9%
Total Long & Short	88.4%
Total Portfolio Long Positions	141.0%
Total Portfolio Short Positions	(41.0%)

1. The investment portfolio may change due to ongoing transactions. Quarterly updates are available within 60 days of quarter-end.

2. Prepared in accordance with National Instrument 81-106 Form 81-106F1.

Lysander Funds



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