

# **Lysander-Canso Bond Fund**

Semi-Annual Management Report of Fund Performance

June 30, 2016



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# **Lysander-Canso Bond 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.

# **Lysander-Canso Bond 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 Lysander-Canso Bond Fund (the “Fund”) contains financial highlights for the period ended June 30, 2016 but does not contain the complete financial statements of the Fund. This report should be read in conjunction with the semi-annual financial statements of the Fund for the period ended June 30, 2016. Lysander Funds Limited (“the Manager”) is the manager of the Fund. You can get a copy of the semi-annual 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***

The Fund’s objective is to provide above average, long-term total returns consisting principally of interest income by investing primarily in high-quality Canadian dollar denominated fixed income securities of Canadian and foreign issuers.

#### ***Investment Strategies***

The Fund’s portfolio manager is Canso Investment Counsel (“Portfolio Manager” or “Canso”). The Fund’s portfolio will primarily be invested in Canadian dollar denominated fixed income securities of Canadian and foreign issues. It also may invest in debt securities convertible into common stock, and fixed income securities of governments, government agencies, supranational agencies, companies, trusts and limited partnerships. The Fund will not be leveraged. The Fund may invest up to 60% of its assets at the time of purchase 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 or its amendments.

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

During the period Canso employed its bottom-up process to buy and sell securities for the Fund. The Fund produced a positive return for the period (0.9% for Series A and 1.1% for Series F), but lagged the broader corporate bond market as interest rates declined. The Fund’s assets were about 65% invested in floating rate notes at period-end. These are expected to perform well when interest rates rise, but they lagged fixed rate bonds whose prices rose as interest rates declined. Canso believes that floating rate yields are attractive relative to short term fixed yields and that the strategy should perform better in future.

This positioning and performance is entirely consistent with the Fund’s fundamental investment objective and strategies. The net assets of the Fund were approximately flat at \$79.5million at June 30, 2016 from the end of the prior period. This was mainly due to subscriptions of \$12.5 million and redemptions of \$13.1 million during the period.

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.

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

# **Lysander-Canso Bond Fund**

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

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

#### ***Recent Developments***

During the quarter, TransCanada Pipelines' bonds came under pressure as they announced a US\$13 billion acquisition of U.S. based Columbia Pipeline. Canso believes these assets provide TransCanada with a strategic foothold in the U.S. Northeast and stable contracted cash flows. The company issued equity to partially fund the acquisition, with the remaining cash expected to come from asset sales. While Canso believes that TransCanada will have to access the debt market to fund its new projects, they expect that the completed projects will add to cash flows and keep the debt levels reasonable to maintain a solid investment grade rating.

MetLife Inc. won an important legal battle over federal regulators seeking to brand the insurer as a 'systemically important financial institution'. Regulators apply that label to financial giants whose failure they believe would threaten the economy and consequently, are subject to tougher rules on capital and use of borrowed money. Canso believes the Fund's holdings in these bonds are not impacted by this development as they are issued by a subsidiary of Metropolitan Life Insurance Company and rank pari-passu with the policyholders at the insurance subsidiary.

The holding in the short term bonds of 407 East Development Group that was extended because of construction delays matured during the period. This 22km road extends the Highway 407 toll road (407 ETR) from Brock Road in Pickering to Harmony Road in Oshawa.

There have been no changes during the period 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 those services. The fee is calculated based on a percentage of the net asset value of the Fund as disclosed in the simplified prospectus.

The Fund paid approximately \$350,558 (including HST) in management fees to the Manager for the period ended December 31, 2015 (June 30, 2015: \$325,966).

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 paid approximately \$148,084 (including HST) to the Portfolio Manager for the period ended June 30, 2016 (June 30, 2015: \$134,605).

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

# Lysander-Canso Bond Fund

## Semi-Annual Management Report of Fund Performance

### Financial Highlights

The following table shows selected financial information for the period ended June 30, 2016 and December 31, 2015, 2014, 2013, 2012 and 2011 for Series A and F, and is intended to help you understand the Series' financial performance.

Series A	Period ended	June 30, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013	Dec 31, 2012	Dec 31, 2011*
<b>Series Net assets Per Unit <sup>1</sup></b>							
Net assets, beginning of period		\$10.47	\$10.61	\$10.28	\$10.39	\$9.94	-
<b>Increase (decrease) from operations:</b>							
Total revenue		0.13	0.31	0.39	0.31	0.21	-
Total expenses		(0.08)	(0.15)	(0.15)	(0.16)	(0.17)	-
Realized gains (losses)		(0.03)	0.13	0.00	(0.02)	0.00	-
Unrealized gains (losses)		0.07	(0.19)	0.27	(0.09)	0.01	-
<b>Total increase (decrease) from operations <sup>2</sup></b>		<b>0.09</b>	<b>0.10</b>	<b>0.51</b>	<b>0.05</b>	<b>0.05</b>	<b>-</b>
<b>Distributions:</b>							
From income (excluding dividends)		(0.06)	(0.16)	(0.23)	(0.16)	(0.13)	-
From capital gains (losses)		-	(0.08)	-	-	-	-
<b>Total Distributions<sup>2,3</sup></b>		<b>(0.06)</b>	<b>(0.24)</b>	<b>(0.23)</b>	<b>(0.16)</b>	<b>(0.13)</b>	<b>-</b>
<b>Net assets, end of year <sup>2,3</sup></b>		<b>\$10.50</b>	<b>\$10.47</b>	<b>\$10.61</b>	<b>\$10.28</b>	<b>\$10.36</b>	<b>-</b>
<b>Ratios and Supplemental Data</b>							
Net asset value <sup>4</sup>		\$18,563,366	\$19,612,434	\$19,042,876	\$6,431,607	\$647,122	-
Units outstanding <sup>4</sup>		1,767,521	1,873,109	1,794,229	625,409	62,486	-
Management expense ratio <sup>5</sup>		1.43%	1.42%	1.46%	1.55%	1.61%	-
Management expense ratio before waivers or absorption <sup>5</sup>		1.43%	1.42%	1.46%	2.33%	4.55%	-
Portfolio turnover rate <sup>6</sup>		13%	73%	48%	44%	40%	-
Trading expense ratio <sup>7</sup>		-	-	-	-	-	-
Net asset value per unit, end of year		\$10.50	\$10.47	\$10.61	\$10.28	\$10.36	-

\*The Series commenced operations on December 28, 2011 and accordingly 2011 period numbers are not available.

### Notes

1. The information is derived from the Fund's unaudited semi-annual financial statements. All per unit figures presented in the 2016, 2015, 2014 and 2013 periods are referenced to net assets determined in accordance to IFRS. All other comparatives periods are based on Canadian GAAP.
2. Net assets and distributions are based on the actual numbers of units outstanding at the relevant time. The increase (decrease) in 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 Bond Fund

## Semi-Annual Management Report of Fund Performance

Series F	Period ended	June 30, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013	Dec 31, 2012	Dec 31, 2011*
<b>Series Net assets Per Unit <sup>1</sup></b>							
Net assets, beginning of period		\$10.39	\$10.52	\$10.20	\$10.34	\$9.94	-
<b>Increase (decrease) from operations:</b>							
Total revenue		0.13	0.30	0.39	0.41	0.43	-
Total expenses		(0.04)	(0.09)	(0.09)	(0.10)	(0.10)	-
Realized gains (losses)		(0.04)	0.12	0.00	(0.02)	0.00	-
Unrealized gains (losses)		0.07	(0.23)	0.29	(0.15)	0.05	-
<b>Total increase (decrease) from operations <sup>2</sup></b>		0.12	\$0.10	0.59	0.14	0.38	-
<b>Distributions:</b>							
From income (excluding dividends)		(0.09)	(0.20)	(0.31)	(0.31)	(0.30)	-
From capital gains (losses)		-	(0.10)	-	-	-	-
<b>Total Distributions <sup>2,3</sup></b>		(0.09)	(0.30)	(0.31)	(0.32)	(0.31)	-
<b>Net assets, end of period <sup>2,3</sup></b>		\$10.42	\$10.39	\$10.52	\$10.20	\$10.32	-
<b>Ratios and Supplemental Data</b>							
Net asset value <sup>4</sup>		\$61,028,579	\$60,034,131	\$43,882,710	\$13,749,290	\$1,959,048	-
Units outstanding <sup>4</sup>		5,857,494	5,776,921	4,170,305	1,347,817	189,790	-
Management expense ratio <sup>5</sup>		0.87%	0.85%	0.89%	0.99%	0.96%	-
Management expense ratio before waivers or absorption <sup>5</sup>		0.87%	0.85%	0.89%	1.76%	6.87%	-
Portfolio turnover rate <sup>6</sup>		13%	73%	48%	44%	40%	-
Trading expense ratio <sup>7</sup>		-	-	-	-	-	-
Net asset value per unit, end of year		\$10.42	\$10.39	\$10.52	\$10.20	\$10.32	-

\*The Series commenced operations on December 28, 2011 and therefore 2011 period numbers are not available.

### Notes

1. The information is derived from the Fund's unaudited semi-annual financial statements. All per unit figures presented in the 2016, 2015, 2014 and 2013 periods are referenced to net assets determined in accordance to IFRS. All other comparatives periods are based on Canadian GAAP.
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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 Bond Fund

## Semi-Annual Management Report of Fund Performance

### 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 Series, calculated daily and payable monthly. The Fund pays a management fee of 1.15% per annum for Series A units and 0.65% per annum for Series F units.

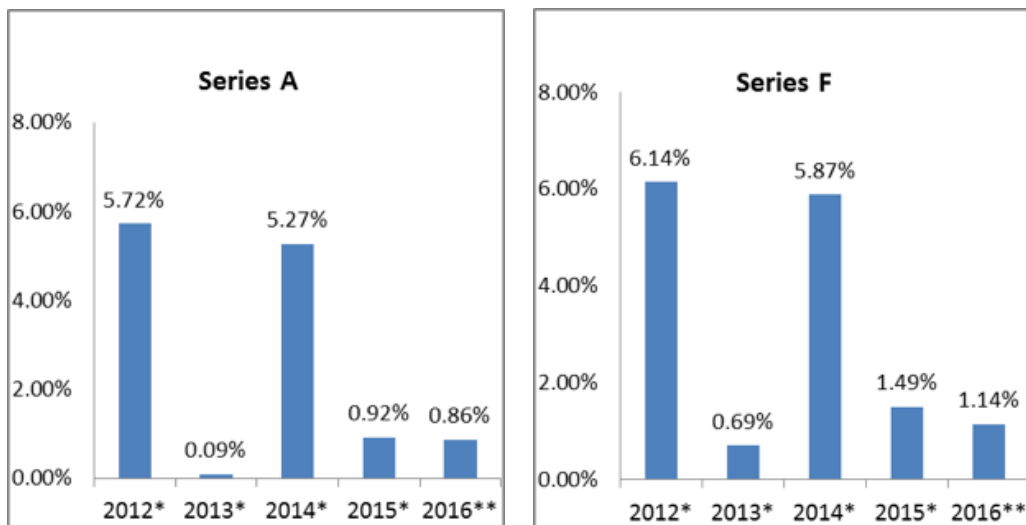
Service fees or trailing commissions of a maximum of 0.50% per annum are paid on Series A units to dealers. This comprises 43.5% of the management fee of Series A units.

### Past Performance

The commencement of operations as a reporting issuer for Series A and F was December 28, 2011. Accordingly, returns are shown for the relevant period 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.

### Year – by – Year Returns



\* For the period January 1 to December 31

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



# Lysander-Canso Bond Fund

## Semi-Annual Management Report of Fund Performance

### Summary of Investment Portfolio

As at June 30, 2016

Top 25 Issuers	% of NAV	Asset Mix	% of NAV
Royal Bank of Canada	9.7	Canadian Fixed Income	82.5
GE Capital	6.7	Foreign Fixed Income	15.5
ICICI Bank NHA MBS (98001256)	5.8	Cash and cash equivalents	0.5
Bank of Montreal	5.8	Other assets less liabilities	1.5
Kraft Canada Inc.	5.5	Total	100.0%
Met Life Global Funding	4.3		
TD Bank	3.9		
Hydro One	3.7		
Central 1 Credit Union	3.4	<b>Sector</b>	<b>% of NAV</b>
Honda Canada	3.3	Cash and cash equivalents	0.5
Enbridge Inc	3.2	Communications & Media	4.6
Cogeco Cable Inc.	3.1	Energy	6.2
Unicredit SPA	2.6	Federal	12.7
National Bank	2.3	Financials	51.7
I.G Investment NHA MBS (98001006)	2.3	Industrials	7.1
WTH Car Rental ULC (AVIS)	2.2	Infrastructure	7.3
Concentra NHA MBS (97503074)	2.1	Provincial	2.8
CIBC	2.1	Real Estate	3.1
Caisse Francaise De Financement Local	2.1	Securitization	2.5
N. B. Highway	2.1	Other assets less liabilities	1.5
MLML 1999-1STT	1.9	Total	100.00%
Bank of Nova Scotia	1.7		
Heathrow Funding Limited	1.6		
National Grid Electrical	1.6		
SNC Lavalin	1.6		
Total	84.6%		



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