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LIONGUARD OPPORTUNITIES FUND
QUARTERLY REPORT – MARCH 2018

FUNDSERV codes: LGC101(Class A) & LGC103(Class F)

Dear Investors,

Investment Performance:

During the quarter ended March 31, 2018, LionGuard Opportunities Fund ("Fund") had a net (after all fees and expenses) return of -7.21%. This compares to the S&P/TSX Total Return Index ("Index"), which was -4.52%. **Since Fund's inception, its annualized net (after all fees and expenses) return amounts to 12.59% and cumulative net return to 51.42%.** Our quarterly and since inception results, as compared to S&P/TSX Total Return Index, are the following:

Time period	LionGuard Opportunities Fund (net returns)	S&P/TSX Total Return Index (with dividends)	Outperformance (underperformance)
Oct 2014 – Dec 2015	3.99%	-1.47%	5.46%
Jan 2015 – Mar 2015	7.50%	2.58%	4.92%
Apr 2015 – June 2015	5.83%	-1.63%	7.46%
July 2015 –Sep 2015	-5.81%	-7.86%	2.05%
Oct 2015 – Dec 2015	5.07%	-1.20%	6.27%
Jan 2016 – Mar 2016	7.09%	4.54%	2.55%
Apr 2016 – June 2016	-0.98%	5.07%	-6.05%
July 2016 – Sept 2016	5.06%	5.45%	-0.39%
Oct 2016 – Dec 2016	7.44%	4.54%	2.90%
Jan 2017 – Mar 2017	6.17%	2.41%	3.76%
Apr 2017 – June 2017	3.77%	-1.64%	5.41%
July 2017 – Sept 2017	2.34%	3.68%	-1.34%
Oct 2017 – Dec 2017	3.26%	4.45%	-1.19%
Jan 2018 – Mar 2018	-7.21%	-4.52%	-2.69%
ANNUALIZED RETURNS	**12.59%**	**3.80%**	**8.79%**
CUMULATIVE RETURNS	**51.42%**	**13.94%**	**37.48%**

As many of you know, we present Index returns for illustration purposes only, while **the objective of the Fund is to generate positive absolute returns irrespective of the overall market direction**. On this point, since Fund's inception, its upside capture ratio has amounted to 103% and downside capture ratio (the lower the better) to 2%.

Canadian Market Dynamics and Quarterly Performance:

During the quarter, we have seen a sizeable correction in Canadian stock market indices, with S&P/TSX Total Return Index down by 4.52% and S&P/TSX Canadian Small Cap Index down by 8.22%.

Unlike in most past quarters, this quarter we have not done a good job on the mark-to-market front. Main reasons for this were higher than typical pull-back in market prices for some of our core holdings and the mistake of investing in Element Fleet Management (which we are no longer involved with). For details, see below.

Despite pull-backs in stock prices for several holdings, we remain confident in the long-term prospects for the companies in the Fund and are pleased with their solid operating results and good capital allocation decisions demonstrated by their management teams. We are also pleased to see a material pickup in overall market volatility, which on occasion provides opportunities to acquire good companies at attractive prices.

Lastly, we would like to highlight that we are seeing larger than warranted (in our opinion) concerns surrounding NAFTA negotiations and its implications for Canada. Once we look at the facts, it becomes apparent that potential negative impact for Canada is rather contained (and specific to select economic sectors) and any changes to NAFTA will take a long time to take effect.

Quarterly Contributors/Detractors:

During the quarter, our sizeable contributors included **TFI International (TFII)** and **Airboss of America (BOS).** On the flip side, our detractors of note included **Alaris Royalty Corporation (AD)**, **Element Fleet Management (EFN)**, **Firan Technology Group (FTG)** and **EXCO Technologies (XTC).** Please see below for comments on these companies' operations.

TFI International (TFII) is the largest publicly traded trucking company in Canada and it has a sizable part of their business coming from the U.S. They operate in different segments of the trucking industry namely: Less than Truckload (LTL), Truckload (TL), Package and Courier (P&C) and Logistics. TFII has been exceptionally well-managed by a very capable individual, Alain Bédard, since 1996. Over the years, Alain has grown the company both organically and through acquisitions, and in the process created a lot of value for shareholders.

During 2017, TFII stock price has been under pressure, as the company recently completed the acquisition of CFI from XPO Logistics and expanded its operations in the U.S. truckload market. The U.S. truckload market suffered for about two years and finally started to improve at the end of 2017. Having followed this company and this industry for a good number of years, we concluded that improving U.S. truckload market dynamics should continue for the foreseeable future. Two factors underpinning our positive stance were the following:

- The demand for truckload services started to grow back, as market dynamics turned positive. At the same time, many operators underinvested in their fleet during the market downturn, limiting available fleet capacity.

- New regulation concerning Electronic Logging Devices (ELD) was taking effect, further reducing spare capacity. ELD devices prohibit the truck drivers from driving more hours than prescribed by law. Although we believe that most large companies (TFII included) have already implemented ELD devices in their operations, numerous smaller operators were not up-to-speed and many of their drivers were on-the-wheel more hours than is permissible under the law. With ELD becoming mandatory, an effective number of available trucking hours for the industry has been reduced, putting further upward pressure on spot (and over time contracted) rates.

In January 2018, we started to increase our weight in the company, as we turned increasingly positive on U.S. truckload dynamics and as TFII's competitors (listed in U.S.) have seen large stock prices appreciation with TFII not following suit. The company subsequently reported solid results for the fourth quarter of 2017 the stock price started to move in the right direction towards our estimate of its intrinsic value.

Airboss of America (BOS) is the second largest rubber compounder in North America. The company operates across two main divisions. The defense division mainly makes shelters, boots, gloves, masks, and filters. The automotive division (composed on rubber compounding and engineered products businesses) mostly sells induction bonded parts to original equipment manufacturers (OEM's) commonly used for noise reduction and light weighting purposes.

Over the last several years, the Rubber Compounding business has been under great pressure, as their sales to the mining industry (which used to account for almost 80% of this division's sales about 5 years ago) fell sharply. It took some time to diversify away from the reliance on the mining industry, which finally account for less than 20% of this segment, and the company is now well on its way to materially increase capacity utilization and to improve profit margins. Based on our analysis, most of the company's end markets (across North America) are experiencing positive dynamics, while at the same time there is little spare capacity in the industry.

The automotive division remains under pressure as Airboss has yet to replace a sizable program that rolled out in 2016. The company has implemented initiatives to better manage this segment and we expect to start seeing notable improvements going forward.

The defense division has been doing great since the middle of 2017 and we expect this dynamic to continue throughout 2018 and well into 2019. Pick-up in demand is translating into a multi-year business awards to the company.

Overall, we are very encouraged by the positive dynamics across most business segments, which should translate into increasing free cash flow generation for the company.

Alaris Royalty Corporation (AD) has been under pressure for the past several quarters, as the company dealt with issues at several of their portfolio companies. Note that we commented on Alaris in the past quarterly reports.

Good news is that practically all the issues have now been resolved and current dividend payout ratio stands at around 90%. With the current dividend yield of more than 9.5% and a solid pipeline for new capital deployments, it pays to wait for a better market valuation for Alaris.

We made an inaccurate assessment of **Element Fleet Management (EFN)** based on information on hand. We subsequently made a mistake of not changing our view fast enough, as negative developments were unfolding and our confidence in the management team was eroding. At the same time, the company has confirmed that is in discussions to potentially sell itself.

With strategic alternatives leading nowhere and the "real picture" about the business dynamics becoming evident, it is not surprising that most investors (us included) exited their positions in the company. This has been a humbling experience, for which we take full responsibility.

Please refer to our Q3-2017 report, available on our website, for our views on the business of **Firan Technology Group (FTG)**. As per Q3 report, we remain very constructive on the company and the aerospace market dynamics as it pertains to FTG.

Firan's stock price has been under big pressure recently, as they announced weak quarterly results, still negatively impacted by integration challenges. At the same time, management has outlined a plan to improve profitability metrics, with some notable improvements starting as soon as next quarter.

In our opinion, market participants remain backward-thinking and fail to acknowledge that management has been humble and forthcoming (on the matter of integration challenges) and that the plan to improve results is well-thought-out and includes various low-hanging fruits.

Since Firan's latest quarterly results, the company has also announced two large positive developments:

- Award of a multi-million dollar contract for the delivery of KC-46 simulated cockpit control devices and boom operator training stations;

- Signing of an amendment, valued at over $4 Million USD, of its long-term contract with Shanghai Avionics Company Ltd.

Which in our opinion have not been reflected in the stock price.

Exco Technologies (XTC) operates in two segments: Automotive Solutions and Casting & Extrusion.

Automotive Solutions segment has been under pressure over the last couple of years, as Exco dealt with some of the issues following the acquisition of AFX. Exco had to 1) rationalize unprofitable operations (namely in South Africa and Lesotho) and 2) adjust to lower production levels at one of their larger plants (as the contract switched from BMW Series 5 to Audi). The good news is that most of required changes have now been implemented and XTC is well on its way to fill spare capacity with new profitable business.

Casting & Extrusion business has also been under pressure over the years, largely due to the weakness in the large mould business. Lower EUR vs USD exchange rates provided European companies with a competitive advantage (vs Exco), which led to a loss of the market share for XTC. To address these and other challenges, Exco has invested in new technologies, which cut the delivery time by half and improved the quality of the product offering. With the EUR moving in the right direction, product delivery timeline very positively received by the customers and Exco no longer needing to operate two processes simultaneously (a very costly undertaking), we believe that the profitability of this segment should improve going forward.

Overall, we believe that XTC is very well managed (from the operations standpoint) and applaud management decision to proactively invest in the business. Note that insiders are sizeable shareholders of the company (something we often look for in our investments), with CEO alone owning more than 23% of the business.

At this time, Exco has a very low net debt (just 0.2x net debt/ebitda) and we expect they will be in a net cash position in the very near term. Despite practically no leverage, we estimate current free cash flow yield close to 12% and expect it to move closer to 14% over the next year. On this front, the company is managed very conservatively and can certainly materially increase its free cash flow per share by optimizing its capital structure.

Corporate Updates:

We continue to grow LionGuard Capital Management Inc. and to expand our team of professionals. To that end, we are **very pleased to announce the addition of Jivka Angelova, M.Sc., to our team**. Jivka has over 10 years of pertinent experience and joined us, at the beginning of April, as a **Senior Manager, Operations, Accounting & Compliance**.

We are also glad to communicate that in the very near future, following numerous requests from investors, our Fund will be available for purchases for registered account holders (RRSP, TFSA & RESP). More details will be forthcoming shortly.

We take this opportunity to remind interested investment advisers that **LionGuard Opportunities Fund is registered on FUNDSERV and is available for purchases under the following Fund codes: LGC101 (Class A) & LGC103 (Class F).**

May you have any questions and/or want to obtain more details on how to invest in LionGuard Funds, feel free to contact us at any time.

Yours sincerely,

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