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LIONGUARD OPPORTUNITIES FUND
QUARTERLY REPORT – SEPTEMBER 2018

FUNDSERV codes:
LGC101(A)/LGC103(F) & LGC201(A)/LGC203(F)

Dear Investors,

Investment Performance:

During the quarter ended September 30, 2018, LionGuard Opportunities Fund ("Fund") had a net (after all fees and expenses) return of 0.59%. **Since Fund's inception, its annualized net (after all fees and expenses) return amounts to 10.63% and cumulative net return to 49.81%.** 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 2014	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%
Apr 2018 – June 2018	-1.65%	6.77%	-8.42%
July 2018 – Sept 2018	0.59%	-0.57%	1.16%
ANNUALIZED RETURNS	**10.63%**	**4.87%**	**5.76%**
CUMULATIVE RETURNS	**49.81%**	**20.96%**	**28.85%**

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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 amounted to 84% and downside capture ratio (the lower the better) to only 7%.

Quarterly Contributors/Detractors:

During the quarter, our sizeable contributors included **Linamar (LNR)** and **EXCO Technologies (XTC).** On the flip side, our detractors of note included **Questor Technology (QST)** and **Airboss of America (BOS).** Please see below for comments on our top and bottom quarterly contributors.

We spoke about **Linamar** extensively in our last quarterly report and about **EXCO Technologies** in our Q1-2018 report. Both companies contributed positively to our returns in the quarter. Part of the reason is because of the new trade agreement reached between US and Mexico, on August 27, 2018.

This agreement, although not yet official, had sections covering the auto industry that, in our view, looked very favourable to North American suppliers. This agreement provided for partial relief to the share prices of Canadian-listed auto suppliers, which have been under pressure for number of months. Despite the negative share price performance to-date, the underlying fundamentals of those businesses, in our opinion, are in good shape and our internal calculations of those businesses' intrinsic value has not been impacted.

In addition to positive news on August 27th, on September 30th, 2018, right at the deadline imposed by the US government, US and Canada have also come to an agreement. The new deal, called United Stated Mexico Canada Agreement (USMCA), will replace the North American Free Trade Agreement (NAFTA).

Here are the key agreed-upon points concerning the auto sector:

- Rules of origin will increase gradually the North American content, from 62.5% in the past to 75.0%, by 2023.
- The Labor Value content will start at 30% in 2020 and will increase to 40% by 2023, with provisions ensuring that a good proportion of this relates to high wages and manufacturing expenditures.
- Removal of the risk to be subject to Section 232 potential tariffs on cars with the side agreement that was signed at the same time.

The demands are for gradual implementation of the new trade rules, which means that the auto suppliers shall not experience much feared disruption to the highly integrated supply chain.

We also view favorably new requirements concerning the rules of origin, which will contribute to the strength of the North American auto sector. It should also translate to more demand for not only American, but also Canadian-based auto suppliers.

We see the Labor Value content changes as slightly positive for Canadian suppliers, as Canadian labour already satisfies high wages requirements.

With all the three countries coming together and creating a setting for a stronger North American auto sector, we believe that a key overhang on the Canadian auto suppliers have been removed. We remain

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committed to our positions, as we believe that those are solid businesses with excellent visibility on free cash flow generation for years to come.

In the case of **Linamar**, the company has gotten zero credit by investors for its higher quality Skyjack and MacDon businesses and continues to trade as a pure play (and still rather mispriced, in our opinion) auto supplier. Using the sum of the parts valuation methodology for its respective businesses, continues to indicate a major mispricing opportunity for company's shares.

EXCO Technologies, in our opinion, is well-positioned to generate higher levels of free cash flow and earnings per share on the back of ongoing operational improvements. Also, with zero net debt on its balance sheet, it has a unique ability to optimize its capital structure and provide a further material benefit to its shareholders. We are encouraged to see share buy-back activity yet continue to believe that the company is not taking a full advantage of the strength of its balance sheet.

Discussion on Canadian auto suppliers would not be complete without mentioning **Martinrea (MRE)**. We want to highlight an outstanding work done over the years by MRE's management. Without getting into too many details, it is clear to us that the steps the company has taken to-date have set the stage for expanding margins in 2019 and 2020. Also, MRE's management has been as aggressive as possible, subject to the limits imposed by the normal course issuer bid (NCIB), in buying back its stock at these levels, a behavior which we fully support.

The decline in the share price of **Questor Technology** can be largely explained by the uncertainties introduced by the Proposition 112 in the state of Colorado. Proposition 112 proposes to move oil and gas drilling to a minimum setback distance from residences and public buildings to 2,500 feet, from the respective existing requirements of 500 and 1,000 feet.

If Proposition 112 is passed in the upcoming 2018 Colorado ballot, the new law would render 85% of the state's private land inaccessible for new drilling (while likely "grandfathering" prior development projects), which will negatively impact QST's operations in the state.

We believe the new regulation on minimum setback distance will likely not be as extreme as requested by the proponents of the Proposition. Having said so, considering the risk of adverse regulatory developments, we decided to materially reduce our exposure in QST until there is more clarity on the matter.

We spoke about **Airboss of America** at length in our Q1-2018 quarterly report. Since then the company reported a relatively weak Q2 earnings report.

We continue to like the company, while realizing that the operational improvements that are underway are likely to take longer than previously anticipated. The defence segment of the company continues to be very strong. The Rubber compounding business however needs to be improved. Having said so, management has communicated number of times that they hope to fill the excess capacity in the rubber compounding operations soon.

The automotive segment has also yet to achieve its required rate of return, yet we would like to highlight that the company has booked several new awards which is certainly encouraging.

Another key point that had a drag on quarterly results is the continuing trend of higher raw material prices and higher freight costs. Material correction in stock price due any of those temporary effects should

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certainly be viewed as a buying opportunity, as the company is able to, contractually, pass through said increases with a reasonable time lag.

Corporate Updates:

We are very glad to communicate that, in the interests of abiding by the industry's best practices and ensuring that we fulfill our fiduciary duty to all stakeholders, we applied for and have been approved as a signatory to United Nations supported **Principles for Responsible Investment (PRI)**. PRI principles require fund managers to incorporate **environmental, social and governance (ESG)** factors into their investment decisions.

Comments on Investment Environment:

We remain both vigilant and open to investment opportunities. At the same time, we do see increasing number of high-quality companies that trade at notable discounts to our calculation of their intrinsic values.

We view an increase in market volatility of late as good news for our long-term investment operations, as it provides us with more opportunities to acquire high quality businesses on the cheap.

We also view recent Canadian market dynamics, namely surrounding exuberance around highly speculative cannabis stocks, as contributing to less rational investor behavior for the segments of the market that matters to our investment operations. As a reminder, we steer away from speculative market segments, in favor of "real" businesses with much more predictable long-term economic characteristics.

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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