LionGuard Capital Management Inc.
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LIONGUARD CANADIAN SMALL CAP EQUITIES FUND
QUARTERLY REPORT – SEPTEMBER 2019

Since Inception Returns:

LionGuard Canadian Small Cap Equities Fund ("Small Cap Fund") gross returns, as of September 30, 2019, can be summarized as follows:

Time period	LionGuard Canadian Small Cap Equities Fund (gross returns)	S&P/TSX Small Cap Index	Outperformance (underperformance)
YTD	16.92%	6.93%	9.99%
1 year	5.30%	-9.11%	14.41%
2 years	2.24%	-5.69%	7.93%
3 years	4.34%	-4.25%	8.59%
4 years	7.73%	3.82%	3.91%
Since Inception	3.56%	-1.36%	4.92%

Note: Periods longer than a year are annualized

We are pleased with the Small Cap Fund's risk-adjusted returns and appreciate strong interest in this product from institutional investors, consultants and family offices. We also look forward to a 5-year track record anniversary for the Small Cap Fund in the first half of next year.

Q3-2019 Investment Performance:

LionGuard Canadian Small Cap Equities Fund more than delivered on its mandate and significantly outperformed its benchmark, S&P/TSX Small Cap Index ("Benchmark") during the Q3-2019. During this period, Fund returned 1.88% as compared to Benchmark at -1.86%.

The sectors where the Fund performed best in comparison to the Benchmark were Health Care with 129 bps of relative outperformance and Financials with 111 bps of relative outperformance. Sectors where the Fund underperformed vs the Benchmark included Real Estate with -50 bps and Consumer Discretionary with -42 bps.

Our largest relative contributor in Q3 was Altus Group (AIF). At the same time, being overweight in Total Energy Services (TOT) and not owning Eldorado Gold (ELD), First Majestic (FR) and SilverCorp Metals (SVM) cost us relative to the Benchmark. Please see comments below on some of our contributors and other noteworthy Companies.

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Altus Group (AIF) is a leading provider of software, data solutions and advisory services to the real estate industry. The company's main business lines are Property Tax, Commercial Real Estate Consulting, Geomatics, and Altus Analytics.

AIF has been a core holding of ours. We believe that the company's flagship product, Altus Analytics, is well on its way to displace other competing products and to become a de-facto standard within the real estate industry. In a way, Altus Analytics positioning within the real estate sector can already be compared to that of Bloomberg in the financial services industry.

Altus reported disappointing results at the end of last year, which led to a decline in the stock price. In our view, quarterly miss was nothing more than a delay in revenue recognition, due to regulatory changes in AIF's property tax business. Despite this being communicated by management, investors nevertheless reacted negatively to the results.

Our decision to maintain exposure through the temporary sell-off led to AIF contributing positively to our fund's return over the last several quarters.

Although not a material contributor nor detractor during the third quarter, one of the companies we want to highlight, as an illustration of our deep fundamental research process, is **Points International (PTS)**.

Points International is a cross-listed (on Canadian and U.S. markets) Canadian-based technology Company that serves the loyalty program industry. Through the Company's web-based e-commerce platform, loyalty program operators can enhance the monetization of their loyalty programs while increasing the engagement of its members.

The Company has three business segments: 1) Loyalty Commerce Platform - LCP (retailing and wholesaling of loyalty program currency), 2) Platform Partners (a broad range of solutions that are connected to and are enabled by the functionality of the LCP) and 3) Points Travel (enabling loyalty program members to earn and redeem their loyalty currency while making a hotel booking and/or car rental online).

It is important to note that Points International generates all its profits from the Loyalty Commerce Platform (LCP) while Platform Partners and Points Travel cost the company a total of $7.6M in EBITDA in FY2018. To put it in perspective, the Company reported a total EBITDA of $18.6M in FY2018. Note that all stated figures are in USD terms.

Despite Platform Partners and Points Travel not delivering on investor's expectations, the outstanding performance of the Loyalty Commerce Platform has led to a steady improvement in the Company's profitability - PTS's total EBITDA grew from $7.1M EBITDA in 2012 to $18.6 EBITDA in 2018. As it stands today, even before potential divestitures are accounted for, PTS generates high levels of recurring free cash flow (currently at around 10% free cash flow yield) and is growing organically.

The Company has been actively buying back its own shares with $24M USD spent on buy-backs since 2015. This is equal to approximately 16% of the current market capitalization. Clearly, the management team and the Board of Directors recognize that the value of the Company's shares does not reflect the real value of the business. Furthermore, strong confidence in the Company's prospects is clearly reflected in management's financial guidance. PTS's official 2020 goals are to achieve a gross profit in the high $90M range (from currently estimated $60M in 2019) and for adjusted EBITDA to reach mid-$40M range (from the currently estimated $20M in 2019). Although we largely discard companies' calculations of adjusted EBITDA numbers, due to the obvious shortcomings of this methodology, PTS's guidance also translates into much higher levels of free cash flow per share.

In our opinion, Platform Partners and Points Travel are not essential to ensure the long-term growth of LCP. In fact, we believe that the two unprofitable segments are masking the strength of LCP business which is one of the reasons why the Company trades at such a large discount to our calculation its intrinsic value. It is our hope that the management team and the Board of Directors of the Company act in the best interests of shareholders and examine strategic alternatives for Platform Partners and Points Travel. Divestitures of these business segments should translate to an immediate 40%+ accretion to the Company's stated EBITDA and huge accretion to the Company's free cash per share.

At these valuation levels, we strongly believe that Points International should be of major interest as a take-out target to a strategic acquirer or private equity investor. Our leveraged buy-out (LBO) analysis leads us to believe that the internal rate of return (IRR) of 18-20% can be realized by the private equity investor after a large take-out premium is paid to the current stock price level. Strategic acquirer in its turn is likely to realize both an immediate accretion (given low valuation multiples and even after an adjustment for take-out premium) and sizeable synergistic benefits from combining the operations of both entities.

It is a fact that there are several private equity investors who know this industry very well and thus should not shy away from looking at the Company. We also want to highlight that a direct competitor to Points Travel was acquired by Priceline.com for $20M back in 2015. Thus, full and partial monetization options, to strategic acquirers, are possible. Until then, we remain content shareholders of this Company given its cash flow generation capabilities and organic growth profile.

Given our public market orientation, we prefer that Points International remains in the public domain. We therefore hope that the management and the board recognize the urgency of taking a decisive action before they are forced to examine other alternatives.

Increasing Number of Mispriced Securities:

We continue to see numerous cases of market inefficiencies and position the Fund accordingly.

The changing nature of market participants, with more and more capital managed by passive index funds, creates an ever-increasing pool of mispriced securities. This is especially prevalent among small and medium-capitalization companies, yet it is also often evident for larger capitalization businesses with smaller liquidity profiles.

Call us old-fashioned and out of tune with what is "a la mode", but unlike passive investors, we do believe it makes great sense to know what one is invested in and to have a well-supported view of the intrinsic value for those businesses. In our opinion, unrelenting purchases of stocks by passive funds will lead to the formation of speculative bubbles, which will likely end badly for numerous unsuspecting investors.

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Another key trend, which we discussed in past reports, is the record amount of capital that is currently available in private markets.

Put together, it is highly likely that the ongoing growth of passive investing will continue to contribute to a growing number of mispriced securities, while record levels of passive capital will be actively deployed to take advantage of those irrationalities. In such a case, we should witness a wave of Mergers & Acquisitions activity mainly centered on small and medium-capitalization companies.

Given our investment focus on higher-quality segment of said market capitalization, we would expect a material increase in take-outs of “our kind of companies”.

Corporate Updates:

We are pleased to note that the quarter ended September 30, 2019 marks LionGuard Opportunities Fund’s 5-year track record anniversary. Over the last 5 years, Opportunities Fund has delivered a net annualized return of over 8.8% per year (for institutional class of units) with a downside capture of only 21%.

May you have any questions, please contact us at any time.

Yours sincerely,

Andrey Omelchak, CFA
President, CEO & Chief Investment Officer
(on behalf of LionGuard Capital team)