LionGuard Capital Management Inc.
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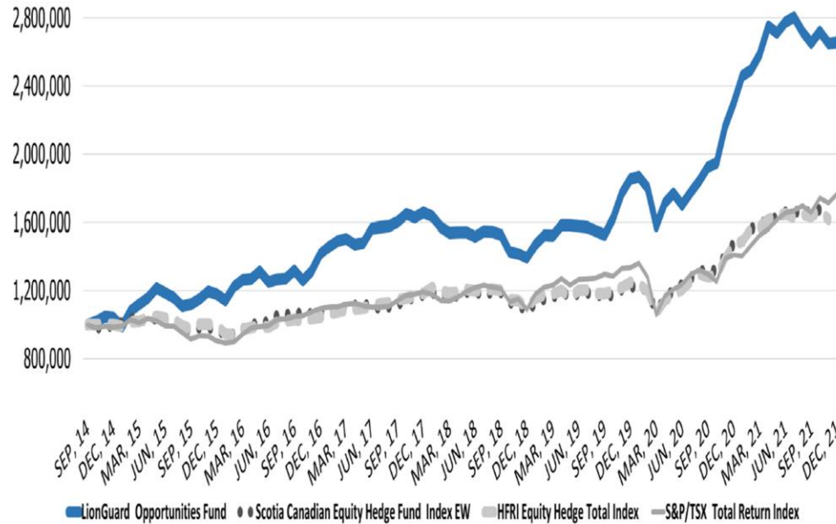
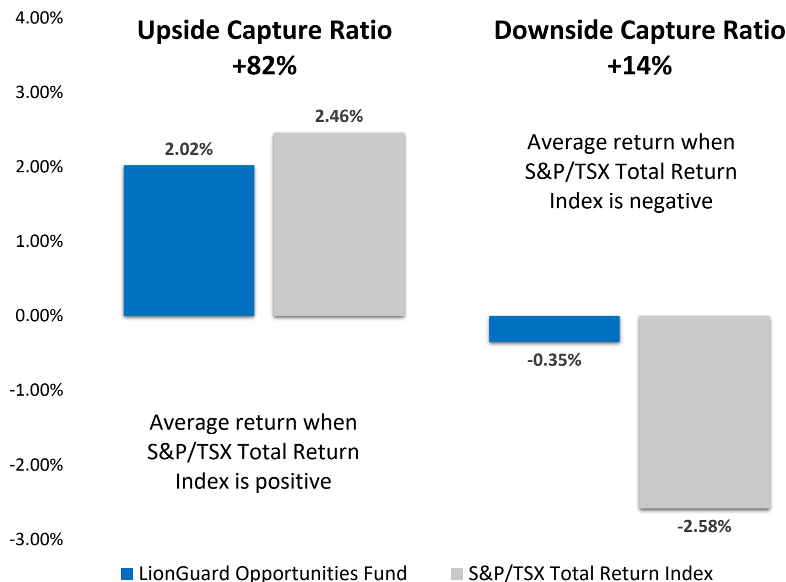
LIONGUARD OPPORTUNITIES FUND
INVESTMENT REPORT – YEAR 2021

Dear Investors,

For the year 2021, LionGuard Opportunities Fund ("Opportunities Fund") had a positive net (after all fees and expenses) return of 15.37%. Since Fund's inception, its annualized net return amounts to 14.42%.



Since the Opportunities Fund's inception, as compared to the broad market index (S&P/TSX Total Return Index), its upside capture ratio amounted to 82% and downside capture ratio to only 14%.



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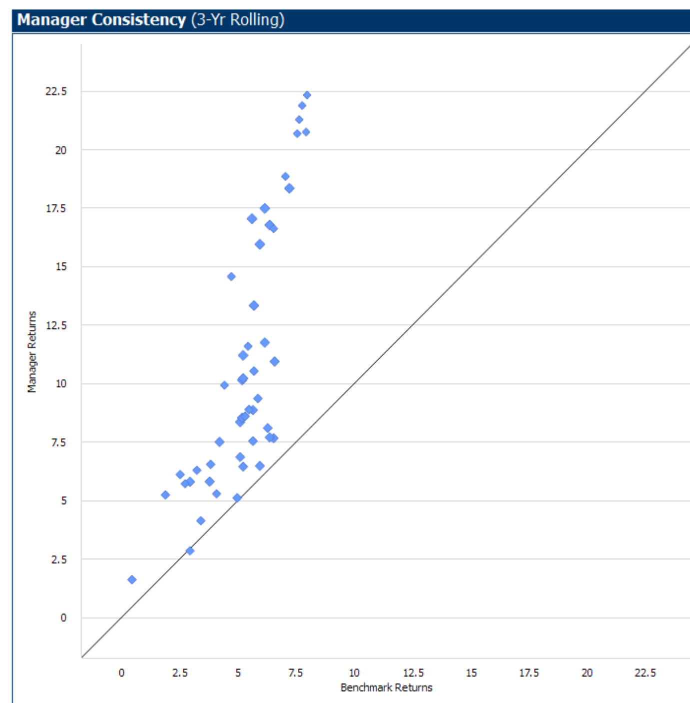
In addition, since Fund's inception, its annualized net return divided by the largest drawdown since inception amounts to 0.91x. This ratio is frequently used by sophisticated allocators to gauge funds' return profiles relative to the amount of risk they take.

We tend to agree with the underlying rationale behind this metric, which in our opinion is much more telling than the more widely used Sharpe ratio. In addition, we believe it is useful to examine net return / 2nd largest drawdown and net return / 3rd largest drawdown ratios, which for the Opportunities Fund respectively amount to 0.91x and 0.93x.

Lastly, as compared to HFN Long/Short Equity Index, a well-recognized global benchmark for Long/Short equity managers, since its inception the Opportunities Fund outperformed for all but one 3-year monthly rolling periods.



Sources: eVestment, LionGuard Capital Management

Join Forces With INFLATION:

Our review of the year would not be complete without reiterating our view on the topic of the day – inflation! Rather than recapping our thoughts on the subject, here is what we wrote about it in our Q3/21 report:

With high inflation likely here to stay (careful with buying into Fed's transitory inflation – new comment since Q3 report: note that the Federal Reserve finally abandoned this view in Q4/21*), many investors are wondering what to do in an environment when the purchasing power of their currency is eroded year after*

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year. Historically, the stock market has proven to be a good place to invest to counter the harmful effects of inflation. Numerous businesses can, after all, over time, pass on price increases to their customers.

The best businesses to consider during times of high inflation are those with strong pricing power and low requirements for additional capital investments. Pricing power is often linked to the perceived brand value, as well as the structure of the industry in which said business operates. Real estate tends to perform well because of the higher replacement cost unless sizeable additional capital is required to maintain the property. Software-centric technology companies, that can scale up easily, are certainly very well-positioned relative to unscalable and capex-heavy alternatives. This is the case during most environments but is especially so when inflation is in high gear. Capital-light businesses can accelerate the growth of their revenues and potentially further expand their margins despite higher labor costs.

The worst businesses to invest in during a high inflationary environment are those that operate in commoditized industries and thus command no pricing power. One should certainly stay away companies that have long duration commitments at fixed prices. Most long-term commercial contracts do include inflation adjustments, yet it is often the case that their realized margins often end up lower during the fulfillment cycle.

We strongly discourage investors from holding high cash levels and from allocating capital to long duration fixed income securities. Handpicked high-quality businesses, acquired at sensible prices, should materially outperform such alternatives, especially during the environment of high inflation. Overall, high inflation should not be of too much concern to investors who can identify businesses that are able to not only protect their current businesses but can further deepen their moats vis-à-vis weaker rivals.

Insider Ownership & Alignment Of Interest:

Over the years, we often emphasized the importance of the alignment of interest between the shareholders of the companies and their management teams. It is well-documented that the stronger alignment of interests leads to an overall better management execution, which is composed of the management of the underlying operations (in relation to industry peers) and the capital allocation decisions. It also greatly lowers reckless decision-making, which can be very costly to company's shareholders. Acquired at sensible prices, companies with high alignment of interests tend to materially outperform their industry peers over time.

In our opinion, the best alignment of interest, over the long-term investment horizon, is the extent of management's insider ownership in relation to their overall net worth. Although some members of the senior management proactively communicate (when it is in their best interests!) whether their ownership is a large component of their net worth, in most cases the absolute dollar amount and the percentage of insider ownership needs to be relied upon.

We encourage investors to carefully examine the data, as well as to engage with the management teams of the companies they consider investing in, to determine the extent of the alignment of interests between the management teams and shareholders. On average, the higher the market capitalization of the company, the less accurate of conclusion can be made to assess the alignment of interests based solely upon the percentage of insider ownership. To control for this variable, we recommend investors to

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examine percentages of insider ownership per market capitalization brackets. Said analysis applied to LionGuard Opportunities Fund, with weighted average (based upon our long weights within respective companies) insider ownership per market capitalization bracket, provides the following results:

- Under $250M market capitalizations — 14.0% insider ownership
- Between $250M and $500M market capitalizations — 12.9% insider ownership
- Between $500M and $1B market capitalizations — 8.5% insider ownership
- Over $1B market capitalizations — 3.9% insider ownership

For the Opportunities Fund as a whole, the weighted average insider ownership for our long positions is equal to 9.8%. In comparison, for the S&P/TSX Small Cap Index and for Russell 2000 Index, respectively, it is 5.2% and 4.2%. Although not exactly apples to apples comparison, for the reasons explained above, it does provide a solid indication for the relative alignment of interests within the Opportunities Fund versus said indices. Same principle, with obvious adjustments, can be applied to evaluate fund managers as well as to compare individual companies against each other.

Year 2021 Contributors:

For the full year 2021, some of our notable contributors were: **Franklin Covey (FC US), Issuer Direct (ISDR US), Photon Control (PHO CN), Converge Technologies (CTS CN), and Donnelley Financial (DFIN US)**. On the opposite side, notable detractors included **Firan Technology (FTG CN)** and **Sleep Country (ZZZ CN)**.

Franklin Covey (FC US) – is one of our top contributors for the year. Please refer to our detailed reports on FC in our 2021 quarterly letters. As discussed in our Q3/21 letter, FC's execution over the last few quarters has been nothing short of phenomenal. On the back of the ongoing transition to recurring revenue, higher-margin business model, the company has now turned into a cash flow machine (7.0% FCF yield), delivering double-digit organic revenue and profitability growth, and just over $200M in sales within an $80Bn+ addressable market.

We continue to expect Franklin Covey's growth and profitability metrics to outperform, buoyed by accelerating growth in the Enterprise and Education divisions as well as the ongoing expansion of their sales force. In fact, we believe that based on historical sales reps' revenue ramp, the company is well-positioned to meet its objectives without having to hire new reps for the remainder of the year. Moreover, with ~90% of training days now delivered online (as opposed to on-site prior to the pandemic), the company is well-positioned to navigate the ongoing surge in Covid cases with very minimal disruption to its operations.

We continue to be supportive shareholders of Franklin Covey as it trades at a significant discount to intrinsic value (which keeps increasing at a fast pace on the back of phenomenal management execution) relative to its fundamentals and market opportunity. With SaaS-like metrics at a fraction of the valuation of a typical SaaS company (7% FCF; ~3.5x implies EV/AAP sales vs precedents 7x+), Franklin Covey remains one of the most compelling ideas in our universe.

Issuer Direct (ISDR US) – is one of our top contributors for the year. Please refer to our Q3/20 report and subsequent letters for detailed discussions about the name. Since introducing Issuer Direct into our funds,

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the company has (a) delivered 6 consecutive quarters of double digit organic revenue growth including 3 quarters of 20%+ growth; (b) significantly expanded its margin profile, achieving 6 consecutive quarters of margin expansion with EBITDA margin growing from 13.8% in 2019 to ~24% in FY21E; (c) grown its customer base from 2,246 in 2019 to 3,500 as of Q3/21 all through organic means; (d) bought back $2.0M worth of stock at an average price of ~$11.00/share (vs stock price at $32 today) including the last tranche done at $23.00/share; (e) generated significant cash flow taking its net cash balance from $15M to $22.5M or 18% of its market capitalization and (f) announced a strategic partnership with $52 Bn market cap company, IHS Markit after 6 months of talks, which could help the company to move further upstream as it provides ISDR with the opportunity to do business with larger companies serviced by IHS.

While the stock has nearly tripled since we first invested in it, the company's fundamentals are as strong as we have seen them as we expect ISDR to grow in the upper teens organically, supported by ACCESSWIRE ongoing market share grab (30%+ growth consistently), strong subscription revenue growth with the number of subscribers to exceed 500 in the short term (vs 100 just 2-3 years ago) and material ARPU expansion ($9,000 today vs $8,000 last year with potential to exceed $15,000 over time) as they continue to introduce new modules (newsroom introduced in Q3 can add north of $2,000/year) and emphasize cross-selling in their sales force. Our expectations exclude potential tuck-in or large-scale M&A as Issuer Direct sits on a ~$23M net cash position and generates strong FCF (5.5% yield). In ISDR, we are invested in a high potential, founder-run business, with multiple organic and inorganic catalysts to help bridge the gap between market value and intrinsic value.

Photon Control (PHO CN) – Please refer to our Q1/21 report for a detailed discussion of the company. In it, we highlighted the attractiveness of the company as a stand-alone investment and a high probability of it being taken out if it continues to trade at these levels. At that time, Photon Control had a). high net cash position b). high profitability metrics c). solid visibility on the industry growth rate for years to come d). numerous synergistic benefits to potential strategic acquirers. We, therefore, were not surprised when on May 10, 2021, MKS Instruments (U.S. peer to Photon Control) announced its intention to acquire the company for $3.60/share. On one side, we were pleased to see PHO (the company we followed from when it traded under $0.10/share) get the recognition it deserves, on another side we were saddened to have another great Canadian small-cap tech champion leaving the public market.

Over the years, we have seen numerous high-quality tech and other companies that we invested in taken out by private equity players, strategic buyers, or other suitors. At the same time, we added to our circle of competence an even greater number of new companies, which have the characteristics that are extremely attractive to prospective acquirers. We, therefore, fully expect to continue to see a high number of takeouts (around 4 per year has been our run-rate) in the fund on a going-forward basis. Below are some of our takeout examples over the last few years.

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LionGuard sample list of take-outs

Ticker	Transaction Value (Million)	Acquirer	Year
RP US Equity	10,000	Private Equity	2021
PRSP US Equity	4,646	Private Equity	2021
DH CN Equity	2,765	Private Equity	2017
CARB US Equity	1,359	Strategic	2019
SVC CN Equity	571	Private Equity	2017
CAM CN Equity	496	Mgmt buyout	2017
GS CN Equity	419	Strategic	2019
PHO CN Equity	387	Strategic	2021
SHSP US Equity	240	Strategic & Private Equity	2021
HGN CN Equity	223	Strategic	2017
NLN CN Equity	180	Strategic	2018
BPE CN Equity	140	Strategic	2017
PIH CN Equity	130	Strategic	2017
RC CN Equity	130	Strategic	2017
SDY CN Equity	123	Management buyout	2020
GPS CN Equity	108	Strategic	2019
RLH US Equity	89	Strategic	2020
SPAN US Equity	76	Strategic	2017
NII CN Equity	53	Strategic	2017
EBN CN Equity	28	Strategic	2017

Sources: LionGuard Capital Management, Bloomberg

Converge Technology (CTS) – For a detailed discussion, please refer to our Q2/21 quarterly report. As expected, Q3/21 results were somewhat impacted by supply chain disruptions, a phenomenon that is short-term in nature and may serve the company over the longer-run, as CTS's scale puts it a more favorable position to navigate the environment relative to its smaller not-as-well-capitalized peers. We therefore believe (a) CTS is in a strong position to potentially gain market share in this environment and (b) the more pronounced impact on smaller competitors may pave the way for accretive M&A at healthy multiples.

Accordingly, we continue to view CTS as a compelling investment in the right secular growth thematic (digital transformation and cloud transition) as management executes on its strategic plan as evident in (a) its ability to grow its managed service with expectations for the latter to exceed $100M in revenue; (b) CTS's successful M&A track record which can be seen in its timely (management intends to list its shares in the London Stock Exchange) transformative acquisition of Europe-based Rednet AG. We view the Rednet AG acquisition favorably as it significantly expands its addressable market and sets the foundation for CTS to pursue its accretive M&A playbook in Europe.

Donnelley Financial (DFIN US) – is one of our top contributors for the year. Please refer to our Q1/21 letter for a detailed discussion about the name. Donnelley is a leading global risk and compliance solutions

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company with well over 50% in recurring revenue. We came across DFIN in the summer of 2020 with at least 100% upside based on its Sum-Of-The Parts, an opportunity that existed due to poor screening (unattractive headline numbers and profitability metrics) masking the true power of the overall company. Based on extensive due diligence, we concluded that DFIN was indeed a powerful tech-enabled (scalable to an extent) company mistaken for a print business, a fact that the market caught onto a few quarters later as the stock appreciated from ~$15/share to $46/share as the company's (a) cost-cutting and operating model transformation shifting the mix from print to software took effect, (b) recurring and highly "sticky" software business experience consistent double-digit organic growth in that period, (c) balance sheet improved from 1.6x D/EBITDA to ~0.5x today on the back of significant cash flow generation and (d) its transactional business benefitted from an increased scale on the back of strong capital markets activity. The company delivered significantly ahead of even our own expectations and while we continue to see it as a great business with strong prospects for years to come (*capital markets activity translates to higher Lifetime value once they retain the client),* we right-sized our weight on the way up to recycle the capital into other companies with an even more compelling upside to downside profiles.

Conclusion:

I take this opportunity to highlight the ongoing commitment, to do their utmost best, from all our team members. Our organization continues to expand as this week we welcomed another person, to assist on the client servicing side of the business.

We are also very thankful to our committed clients, who continue to recognize our stock picking abilities, within a highly inefficient part of the market, by entrusting us with increasing amounts of their capital.

Yours sincerely,

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

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