LionGuard Capital Management Inc.
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LIONGUARD OPPORTUNITIES FUND
QUARTERLY REPORT – MARCH 2017

FundServ codes: LGC100 (Class A) & LGC102 (Class F)

Dear Investors,

Investment Performance:

During the quarter ended March 31, 2017, LionGuard Opportunities Fund ("Fund") had a positive net (after all fees and expenses) return of 6.17%. This compares to the S&P/TSX Total Return Index ("Index"), which was up by 2.41%.

Since Fund inception, in October 2014, its annualized net (after all fees and expenses) return amounts to 17.23% and cumulative net return to 48.79%. 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	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%
Annualized returns	**17.23%**	**4.65%**	**12.58%**
Cumulative returns	**48.79%**	**12.02%**	**36.77%**

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.

Quarterly Contributors:

During the quarter, our largest contributors included **Chesswood Group (CHW), Martinrea International (MRE)** and **Norsat International (NII)**. On the flip side, our detractors of note included **Pacific Insight Electronics (PIH)** and **Alaris Royalty (AD)**.

In our past quarterly and annual reports, we discussed most of these companies. The one that we believe is worth highlighting here is Chesswood.

Chesswood Group (CHW) is involved mainly in small ticket equipment leasing and lending business. They are capitalizing on growing confidence of small and medium sized companies across the United States. CHW has a very strong organic growth profile and excellent credit metrics for both its “core” and “prime” originations products.

On April 13, 2017, the company announced partial exercise of the accordion feature under its credit facilities, which is a clear sign of increasing demand for their services. Specifically, management stated that they are approaching 30,000 loan contracts and $600mn of gross finance receivables. In addition to booming underlying business, coupled with the currently limited amount of competition, Chesswood is poised to largely benefit from any favorable tax code changes in the U.S.

Chesswood pays high and sustainable dividend yield, plus it is a key takeout candidate for a larger financial institution. We believe that large acquirer should be able to realize around 125-150 basis points benefit for the cost of funds and around $1.5mn reduction in corporate expenses.

A larger institution would also be able to materially increase origination levels, although CHW is currently under-levered. Those benefits, coupled with CHW’s current characteristics, would be immediately accretive to most banks and trust companies on both earnings per share and return on equity.

Our Take on Acquisitions:

During the quarter, there have been three take-out announcements for the companies in our Fund. Those companies are **Norsat International (NII), RDM Corporation (RC)** and **DH Corporation (DH).**

Although on one hand, we are glad to see a positive contribution to our returns from Norsat and RDM, we also often prefer not to have high-quality free cash flow generating companies leaving our Fund. This is especially the case when management of those companies can allocate excess capital generated by the business at high rates of return. This is, of course, easier said than done.

In general, it is to be expected that value assigned to such business, by a strategic buyer, is often higher than the value than can be realized, over short and often medium-term, by public market participants.

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In our own investment process, we rarely assign a sizable probability to takeout valuation potential. Rather than a stand-alone investment thesis, with its own expected return characteristics, we treat it as risk management tool that dictates valuation levels below which certain businesses should not be trading.

This approach precludes speculative investment decision making and further reinforces a mindset of a private owner set on owning, rather than trying to sell, a given business operation. On one hand, this limits short-term gains by not having larger weights at the time of take-over announcements, while on another hand it leads to a more disciplined investment process, which is of benefit to long-term investment results.

In the case of DH Corporation, please refer to our "Investment Report – Year 2016", found on our website, for discussion on the company and how we took advantage of excessive temporary market dislocation.

Conclusion:

We remain both vigilant and open to investment opportunities. We believe that overall market volatility is likely to increase, especially from levels we have seen year-to-date, which should benefit long-term investment operations of the Fund. At the same time, we do find a good number of quality companies that currently trade at notable discounts to our calculation of their intrinsic values.

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

Yours sincerely,

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