LionGuard Capital Management Inc.
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LIONGUARD CAPITAL MANAGEMENT INC.
INVESTMENT REPORT – YEAR 2018

Dear Investors,

Investment Performance - LionGuard Opportunities Fund:

For the year 2018, LionGuard Opportunities Fund ("Opportunities Fund") had a negative net (after all fees and expenses) return of -16.38%. **Since Opportunities Fund's inception, in October 2014, its annualized net (after all fees and expenses) return amounts to 7.59% and cumulative net return to 36.45%.** Please see below for discussion on the return drivers in 2018 and our positioning going into 2019.

Opportunities Fund's 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 2014	3.99%	-1.47%	5.45%
2015	12.59%	-8.32%	20.91%
2016	19.70%	21.08%	-1.38%
2017	16.44%	9.10%	7.34%
2018	-16.38%	-8.89%	-7.50%
ANNUALIZED RETURNS	**7.59%**	**1.99%**	**5.60%**
CUMULATIVE RETURNS	**36.45%**	**8.73%**	**27.72%**

As many of you know, we present Index returns for illustration purposes only, while **the objective of the Opportunities Fund is to generate positive absolute returns irrespective of the overall market direction**.

Market Comments:

2018 was a challenging year for global equity markets.

In United States, the Dow, S&P 500 and NASDAQ lost 5.6%, 6.2% and 3.9% respectively. Russell 2000 Index, a widely followed benchmark for small-cap U.S. stocks, was down by 12.6%. In Canada, S&P/TSX Composite Index was down by 11.6%, TSX Venture Exchange lost 34.4% and S&P/TSX Small Cap Index lost 20.1%. Canadian small cap equities were one of the world's worst performing asset classes.

Elsewhere around the world, all major equity indices were in the red territory with Stoxx Europe 600 at -13%, U.K.'s FTSE 100 at -13%, Japan's Nikkei at -12%, Shanghai Composite at -25%, Hong Kong's Hang Seng at -14%.

Most of the drop in North American equity markets took place during the last quarter of the year. Although, from our perspective, there was nothing unique about the fourth quarter, investor's increasing concerns were clearly reflected in the market performance.

Numerous reasons can be stated for a sizeable correction including negative earnings revisions for year 2019, escalation of the trade war between U.S. and China, prospects of further unwinding of central banks' easy-money policies, need for "normalization" of overall valuation multiples (especially in the light of higher applicable discount rates) etc.

Large tax changes and buoyant U.S. economy contributed to over 20% (estimated) earnings growth for the S&P 500 companies in 2018. Current estimates, as per FactSet, call for growth of 7.8% (down from 10.1% in September 2018) in 2019. Given that many analysts have yet to update their models for 2019, we would expect further negative earnings revisions in the near-term. Whether this is already reflected in the market is a good question.

<u>Opportunities Fund Performance In 2018:</u>

We have made some mistakes in 2018, which led to a larger than it should have been mark-to-market impact for the Opportunities Fund. Concurrently, we believe to have learned valuable lessons, which should serve our investors well going forward.

Our main omission was that while we entered 2018 with a cautious stance (for details see our 2017 Investment Report), we lowered cash levels and increased Opportunities Fund's net long exposure as the year progressed.

Although we believe that we acquired shares in various businesses at attractive prices, failing to fully incorporate the probability of mark-to-market over-reactions associated with cyclical stocks, led us to buying companies at higher prices than we could have done otherwise. It is important to highlight that although we are confident in our ability to compound the capital over a long time frame, market quotations for businesses we invest in can fluctuate without any fundamental reason.

Good news is that we remain committed to the businesses we bought and believe that mark-to-market gyrations are illustrative of increased mispricing, rather than changes in businesses fundamentals. Consistent with our risk management approach, our primary objective is to ensure that the intrinsic values of the businesses we purchase go up over time irrespective of stock price fluctuations.

Referring to the writings of Warren Buffett, as per Berkshire Hathaway 2017 Annual Report: *"Berkshire, itself, provides some vivid examples of how price randomness in the short term can obscure long-term growth in value. For the last 53 years, the company has built value by reinvesting its earnings and letting compound interest work its magic. Year by year, we have moved forward. Yet Berkshire shares have suffered four truly major dips."*

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Opportunities Fund Positioning Going Into 2019:

Following major sell-offs, especially across small and medium capitalization Canadian equities, we now see high number of quality companies that trade at large discounts to our calculation of their intrinsic values. Whether and when those intrinsic values will be realized remain to be seen, yet we are highly encouraged to see those opportunities. Note that these comments pertain to the businesses we know well and should not be taken as our view on the overall market multiples and market direction.

Of course, our analysis of the underlying securities can be proven wrong and/or market participants can simply not recognize the value of those securities.

On the first point, it is our job to ensure that we have done our due diligence on the companies and our modeling of their future profitability is as accurate as possible. Despite occasional “surprises”, we have high confidence in our ability to deliver on this part of the equation.

On the second point, it is true that companies can keep trading at large discounts to their intrinsic values for an extended period. One way we try to circumvent this dynamic, especially during the weaker market environment, is to increase our allocation towards companies with very high free cash flow yields in the near term. Higher levels of free cash flow today, provide for a more immediate gratification to investors, who are less patient than under more “normal” market conditions.

Overall, although punitive on the mark-to-market front in the short-term, we welcome increasing disconnect between businesses fundamentals and their market quotations. Such a dynamic provides for opportunities to re-allocate the capital to businesses with the highest upside to their intrinsic values.

Of course, the only way this can be accomplished, is when an investor has a high confidence in his/her calculations of the intrinsic values. Alternatively, one can become intimidated by adverse stock price movement and not take advantage of the opportunity.

Increase in Quantitative Trading & Implications for Fundamental Managers:

Concurrent with recent corrections for great number of securities, we saw large escalation of market volatility. It is our belief that big part of the reason for higher short-term volatility can be explained by the increasing proportion of quantitative trading. With quantitative trading poised to increase even further, investors should get used to larger price movements for securities and especially to abnormal stock price behavior following quarterly earnings reports.

As this dynamic continues, fundamental fund managers will need to adapt to this new market reality and learn how to profit from it. In the same way as the growth of Exchange Traded Funds (ETFs) contributes to market inefficiency, so does the growth of quantitative trading. Both dynamics play in the favor of fundamental managers focused on taking advantage of prevailing market inefficiencies. This leads us to believe that the benefits of fundamental stock picking (with the focus on the right business metrics & increasingly with a greater need to have a proper “mental framework”) are here to stay.

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Investment Performance - LionGuard Canadian Small Cap Equities Fund:

Our second fund, LionGuard Canadian Small Cap Equities Fund ("Small Cap Fund"), more than delivered on its mandate and significantly outperformed its benchmark, S&P/TSX Small Cap Index ("Benchmark") during the year 2018. Small Cap Fund gross returns, as of the end of December 31, 2018, can be summarized as follows:

Time period	LionGuard Canadian Small Cap Equities Fund (gross returns)	S&P/TSX Small Cap Index	Outperformance (underperformance)
1 year	-15.37%	-20.10%	4.73%
2 year	-2.78%	-10.49%	7.71%
3 year	**4.46%**	**2.69%**	**1.78%**
Since Inception	**-0.05%**	**-3.42%**	**3.37%**

We are pleased that the Small Cap Fund is delivering on its promises and much appreciate strong interest for this product from consultants, family offices and institutional investors. As a reminder, Small Cap Fund's objective is to outperform its Benchmark by at least 200 bps per annum over a rolling time frame of four years.

Corporate Updates:

During 2018, we made numerous advances as an organization and achieved several key milestones. This would have not been possible without the hard work and dedication of our team members. Some of the highlights of the year include:

- Attained over 4-year track record for LionGuard Opportunities Fund. Opportunities Fund was launched in October 2014 and as of the end of December 2018 it has a track record of 4 years and 3 months.

- Attained over 3-year track record for LionGuard Canadian Small Cap Equities Fund. Small Cap Fund was launched in May 2015 and as of the end of December 2018 has a track record of 3 years and 7 months.

- Launched LionGuard Opportunities Trust Fund. Opportunities Trust Fund was launched in May 2018 to satisfy a strong demand from the investment community to accept investments for registered plans (RRSP, TFSA, RESP, etc.).

- Welcomed to our team Jivka Angelova, M.Sc., as a Senior Manager, Operations, Accounting & Compliance.

- Became a signatory to the United Nations-supported Principles for Responsible Investment (PRI). The PRI is recognized as the leading global network of asset owners, investment managers and service providers who are committed to incorporate environmental, social and governance (ESG) considerations into their investment practices and ownership policies.

- Launched new website design and updated key presentation materials.

- Contributed to various charitable causes & participated in several said events.

We appreciate ongoing inflows from existing clients and new client's commitments. During the year, we established new business relationships with consultants, family offices, investment advisers and institutional investors.

We take this opportunity to highlight that this is the first year when our investors can benefit from the RRSP & TFSA contribution season, to acquire units in the LionGuard Opportunities Trust Fund. We also want to remind interested investment advisers that LionGuard Opportunities Fund and LionGuard Opportunities Trust Fund are registered on FundServ and are available for purchases under the Fund codes "LGC".

Conclusion:

As we enter 2019, we are encouraged by discounts to intrinsic values offered in the marketplace. At the same time, we welcome short-term market (and company-specific) volatility as a means of acquiring quality businesses at even larger discounts.

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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President & Chief Investment Officer

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Vice-President, Business Development

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