LionGuard Capital Management Inc.
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LIONGUARD OPPORTUNITIES FUND
QUARTERLY REPORT – MARCH 2019

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

Dear Investors,

Investment Performance:

During the quarter ended March 31, 2019, LionGuard Opportunities Fund ("Fund") had a net (after all fees and expenses) return of 9.07%. **Since Fund inception its annualized net (after all fees and expenses) return amounts to 9.24%.**

Fund's 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%	0.46%
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%
Jan 2019 – Mar 2019	9.07%	13.29%	-4.22%
ANNUALIZED RETURNS	**9.24%**	**4.74%**	**4.50%**
CUMULATIVE RETURNS	**48.83%**	**23.18%**	**25.65%**

As most readers 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 75% and downside capture ratio to only 29%. Also, since inception, the Fund outperformed the S&P/TSX Total Return Index by 4.50% per annum.

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Active Merger & Acquisition Environment:

There have been several takeout announcements for the companies in our funds during the quarter. Those companies are Gluskin Sheff (GS), Solium Capital (SUM) and ZCL Composites (ZCL). Note that although we owned all three companies in our long-only Canadian Small Cap Equities Fund, Gluskin Sheff was the only position we owned, at the time of the announcement, in the Opportunities Fund.

Please refer to our Q1-2017 quarterly report, which can be found on our website, for our views on takeouts. Although there are naturally mixed feelings when a solid company (which we define as the one with strong current free cash flow generation and/or highly recurring revenue stream with excellent visibility towards future free cash flow) is leaving our fund(s), a takeout does validate our assessment of the quality of the business and its intrinsic value. Unless there is a specific reason why takeout is unlikely (such as controlling shareholder with no interest in selling, large "golden parachute(s)" in place, regulatory hurdles, etc.), all companies are potential acquisition targets.

Despite on average higher valuation levels, as compared to numerous "garage sale prices" we have witnessed at the end of 2018, we believe that merger and acquisition (M&A) activity in the Canadian small and medium capitalization space is very likely to continue. Some of the reasons for that include the following:

- Record amount of capital that needs to be deployed by the private equity ("PE") industry. According to McKinsey Global Private Markets Review (2018 edition), there is over $1 trillion of dry powder of capital committed (between the year 2000 and the first half of 2017) yet not deployed by the general partners of PE firms. At the same time, we continue seeing record amounts of new capital inflows in large PE funds. As a sign of times, just look at the recently raised US$22 billion buyout fund, the largest ever, by Blackstone Group. With so much capital "flowing around" it is only natural to see more acquisitions, more competing bidding situations and under normal market conditions, higher valuation multiples paid for acquisitions. It is also important to highlight that given the timing of the initial capital commitments by limited partners, the pressure on general partners to deploy the capital from earlier vintages is mounting rapidly.

- Exceptionally low interest rates environment. Whether it is for private equity players, strategic buyers from the same industry, management buy-outs or any other purchases, the prevailing interest rate is in most cases the most important determinant of the attractiveness of a deal. On one hand, if there was a rising interest rates environment, there would be a pressure to close some of the deals sooner rather than later and to lock in the long-term rate. On another hand, "lower for longer" environment makes acquisitions much more attractive to all kinds of purchases including those who are not in a rush to "close the deal". While the Federal Reserve and the Bank of Canada regularly shift their tone from dovish to hawkish and vice-versa, we ought to remind ourselves that the current interest rates environment, from the historical standpoint, and despite a number of increases from the low, is exceptionally accommodative.

Quarterly Contributors/Detractors:

During the quarter, some of the largest contributors for the Fund were: Firan Technology Group (FTG), Martinrea International (MRE) and Gluskin Sheff (GS). On the flip side, negative contributors were broadly-based and came mostly from our short positions. Please see below our comments on top contributors.

Firan Technology Group (FTG) - Please refer to our Q3-2017 and Q1-2018 reports for discussions on the business of Firan.

As per our prior write-up, we did not believe that the integration challenges (post acquisitions) were structural and thought that FTG's share price will recover as management delivers on its promises. Although the integration took longer than expected, challenges are now behind us as FTG has delivered solid execution over the last several quarters. As a result, the investment community is starting to give credit to the management team and is pushing the stock price higher.

Going forward, we are optimistic that future acquisitions will also be value-creating and that recent lessons will lead to smoother integration(s) (if required) of acquired operations. We remain bullish on this industry and believe that there is room for long-term shareholder value creation upon proper execution of a business plan.

Gluskin Sheff + Associates (GS) - GS is a wealth management firm focused on serving the needs of high net worth private clients and select institutional investors.

The Company's stock price has been under pressure for a while, due to some of the following reasons: institutional capital outflows, senior investment personnel departures, a legal dispute between the Company and its founders, pressure on industry's fees and others. Our investment team, however, was more positive on the prospects of Gluskin Sheff vs what was recently implied in its stock price. Our rationale was the following:

- Institutional capital was never a big focus for GS and represented a small portion of its total assets under management and especially of its base management fees and performance fees.

- While we agreed that senior investment personnel departures, over the last several years, were worrisome, we were also of an opinion that there are numerous highly experienced individuals at the firm to take their place. We were also not too worried about the stickiness of the business given GS's focus on high net worth ("HNW") market segment.

- Although legal matters with the founders are never welcome, these matters were already settled and no longer presented a risk to the Company.

- We certainly recognize that due to the increasing prominence of cheap investment alternatives (mainly ETFs), there is a fee pressure on management fees for the industry. From our perspective, to counter some of those challenges, an investment firm can 1). focus on specialized niche products that cannot be easily replicated, 2). have a differentiated investment process that can outperform indices over time and/or deliver attractive risk-adjusted returns and 3). service market segment with highly "sticky" (for the lack of a better word) clientele. Overall, we believed that GS is much less susceptible to industry challenges given their utmost focus on the HNW market.

In addition, despite all the challenges, Gluskin Sheff grew its assets under management from $5.5 billion in 2013 to around $8.2 billion currently.

Immediately preceding the takeout announcement, GS had close to 9% free cash flow yield (without giving any credit to performance fees) on its market capitalization. The Company also had no net debt and paid a dividend yield of around 9%.

Given the stickiness of GS's high net worth client base, excellent free cash flow yield on base management fees, optionality for large performance fees, balance sheet with a net cash position, optionality of a management buy-out or a takeout by a strategic partner, etc., we felt very comfortable to own the shares in the Company and to increase our weight on weakness.

At the end of March 2019, Onex Corporation agreed to acquire Gluskin Sheff for $14.25 per share. The purchase price represented a 28% premium to the closing price. We view the combination of both companies as a win-win and believe that the probability of a competing bid is low. We cannot say, however, that we believe the full value of Gluskin Sheff has been realized at $14.25 per share.

Martinrea International (MRE) - We briefly discussed Martinrea in our Q3-2018 report.

The Company is the third largest auto parts supplier in Canada. It operates in Metal (Steel and Aluminium) solutions and in Fluid management solutions. We like Martinrea's geographic exposure, as it generates most of its revenues from North America. NA auto market has been more resilient than those of Europe and China. The Company is also well-positioned to benefit over the longer term due to their expertise in incorporating aluminium (to improve the fuel efficiency) and a solid exposure to the production of Electric Vehicles.

Operationally, MRE has made excellent progress by improving its profit margins and winning significant new program awards. In 2018, the Company won over $800 million worth of new business awards, its highest year ever. The Company is also moving in the right direction by diversifying its customer base, although there is still a lot of work to be done to lessen their dependency on the "Big 3" (Ford, Fiat Chrysler Automotive and General Motors).

The management team has been taking advantage of the MRE's attractive valuation levels by actively buying back Company's shares in the open market. To put it in perspective, the Company has bought back around 5% of its outstanding shares between August 2018 and February 2019. We applaud management's decision to take advantage of this market irrationality and to do so without increasing the leverage of the Company.

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Investment Performance – LionGuard Canadian Small Cap Equities Fund:

LionGuard Canadian Small Cap Equities Fund ("Small Cap Fund") continues to deliver on its mandate and significantly outperform its benchmark, S&P/TSX Small Cap Index ("Benchmark"). Small Cap Fund gross returns, as of the end of March 31, 2019, are the following:

Time period	**LionGuard Canadian Small Cap Equities Fund (gross returns)**	**S&P/TSX Small Cap Index**	**Outperformance (underperformance)**
YTD	13.21%	10.01%	3.20%
1 year	1.46%	-4.23%	5.69%
2 years	1.71%	-6.52%	8.23%
3 years	7.06%	3.40%	3.66%
Since Inception	**3.17%**	**-0.82%**	**3.99%**

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.

Conclusion:

We remain both vigilant and open to investment opportunities. 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. We also expect to see more takeout announcements, especially in the small and medium capitalization universe.

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

Yours sincerely,

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