



LIONGUARD CANADIAN SMALL CAP EQUITIES FUND

QUARTERLY REPORT – JUNE 2020

Since Inception Returns:

LionGuard Canadian Small Cap Equities Fund (“Small Cap Fund”) gross returns, as of June 30, 2020, can be summarized as follows:

Time period	LionGuard Canadian Small Cap Equities Fund	S&P/TSX Small Cap Total Return Index	Value Added
YTD	-7.11%	-14.28%	7.17%
1 year	4.01%	-10.07%	14.09%
2 year (annualized)	1.95%	-9.10%	11.05%
3 year (annualized)	2.97%	-4.51%	7.48%
4 year (annualized)	4.89%	-2.51%	7.39%
5 year (annualized)	3.27%	-0.16%	3.43%
Since Inception (annualized)	3.45%	-0.80%	4.25%

Market Commentary & Investment Strategy:

During Q2/2020, we have seen one of the fastest comebacks for the North American stock market indices. For that, market participants must thank, above all, the Federal Reserve. Without swift and unprecedented action, more “normal” economic forces would have taken place.

Recently we have seen increasing number of mainly larger-cap companies trading notably above their fundamental values on the back of positive fund flow dynamics. With record number of personal investment accounts opened over the last 2-3 months, there has been an influx of “trigger-happy capital” into the market. In addition, with so much institutional capital managed without reliance on companies’ fundamentals, it is warranted to see increasing cases of market inefficiencies.

With lower interest rates here to stay for an extended period, it is not a surprise that multiples paid for high growth companies with recurring revenues are on an upward trajectory. Although we fully agree that businesses with fast-growing revenues have gotten much more attractive (their intrinsic values increased substantially due to lower discount rates), we caution investors against chasing “popular” securities and



oftentimes largely overpaying. We do believe that there is great sense in purchasing growing businesses that trade at large discounts to their intrinsic values.

Despite higher overall levels (as compared to three months ago), we find that some of our securities have become more attractive relative to our revised calculations of their intrinsic values. Many of these companies' operations have benefitted (in some cases tremendously) from COVID-19 mainly due to much faster adoption of their products by customers. Unlike for various larger caps (with arguably blue-sky scenarios more than fully priced in), stock price performance for numerous small-capitalization COVID-19 beneficiaries has often not reflected said positive dynamics.

As the disconnect in valuation levels between large cap peers and the companies we invest in starts to defy the logic, we are convinced that chances of our companies narrowing the gap (via fundamentally justified multiple expansion or being taken out by private equity or a strategic buyer) increase materially.

With record amounts of dry powder in the hands of private equity and access to capital for LBO transactions likely to improve in H2/2020, we fully expect to see a lot of takeout announcements including for small- and mid-cap companies over the next 6-18 months. We take this opportunity to highlight that numerous companies we invest in are major takeout candidates. Some of the notable ones are: **Sangoma Technologies (STC)**, **Photon Control (PHO)**, **Firan Technology (FTG)**, **Mediagrif (MDF)** and others.

Q2-2020 Investment Performance:

LionGuard Canadian Small Cap Equities Fund underperformed its benchmark, S&P/TSX Small Cap Total Return Index ("Benchmark") during the Q2-2020. During this period, Fund returned 34.88% as compared to Benchmark at 38.52%.

The sectors where the Fund performed best in comparison to the Benchmark were Real Estate with 198 bps of relative outperformance and Information Technology with 187 bps of relative outperformance. Sectors where the Fund underperformed vs the Benchmark included Industrials with -457 bps of relative underperformance and Materials with -241 bps.

Our largest relative contributors came from being overweight in Airboss of America (BOS), Photon Control (PHO) and Sangoma Technologies (TC). At the same time, being overweight in Morneau Shepell (MSI), People Corp (PEO) and not owning Ballard Power (BLDP) has cost us relative to the Benchmark. See below for our comments on Sangoma.

Sangoma Technologies (STC) – In our previous quarterly report and considering a sharp market sell-off in March, we highlighted how under-appreciated the Sangoma story has become despite being in the early innings of a very compelling long-term growth story. During the market sell-off, we took advantage of lower share price and increased our position in the company.

Among other reasons, we are positive on STC because of its highly resilient business model. Unlike great majority of other businesses, the company maintained its fiscal year 2020 guidance despite COVID-19 headwinds as it benefitted from a growing stream of recurring revenues.



We take this opportunity to highlight STC's large valuation upside, as they continue executing on their plan to increase recurring revenues (both organically and because of accretive M&A). Also, despite excellent execution and improving fundamentals, the Company trades at increasingly high valuation discount to its larger industry peers. To put it in perspective, RingCentral (RNG) is up 72% YTD as compared to STC at +6%.

As management continues to execute on its business plan built upon a disciplined and proven approach to capital allocation, we believe the company is well positioned to create significant shareholder value for years to come. We reiterate that unless market participants recognize the value of the company, it is highly likely to be taken out by the private equity or a strategic buyer.

For more detailed comments on Sangoma Technologies, please refer to our prior quarterly reports.

Corporate Updates:

Despite temporary yet dramatic healthcare and economic challenges, LionGuard remains committed to growing our dedicated team and expanding operations. To that end, in June 2020, we welcomed Pierre Czychowicz as a Managing Director and Head of Distribution.

Pierre will be responsible for overseeing all aspects of distribution including business development and relationship management. His vast experience in the investment industry at Canadian and international firms gives him a thorough understanding of the best practices in place at world-class firms.

Throughout his career, Pierre has advised a wide variety of private and institutional investors, including family offices, foundations, pension plans and others on making sound investment decisions. Beyond his thorough knowledge of financial markets, investment strategies and portfolio construction, he has also developed a more specific specialization in alternative investments and their integration into investment portfolios. His experience with institutional, wholesale and retail markets give him a unique perspective on their realities, their expectations, and the dynamics of their relationships with investment managers.

Prior to joining LionGuard, Pierre was Executive Director and Regional Head for Eastern Canada at one of the world's leading private banks where he also led the family office strategy nationally. Pierre holds an MBA, is a CFA and CAIA charterholder, and a Fellow of the Canadian Securities Institute and the Institute of Canadian Bankers.

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)