LionGuard Capital Management Inc.
1010 rue Sherbrooke Ouest, Suite 2350
Montréal (Québec) Canada, H3A 2R7
www.lionguardcapital.com

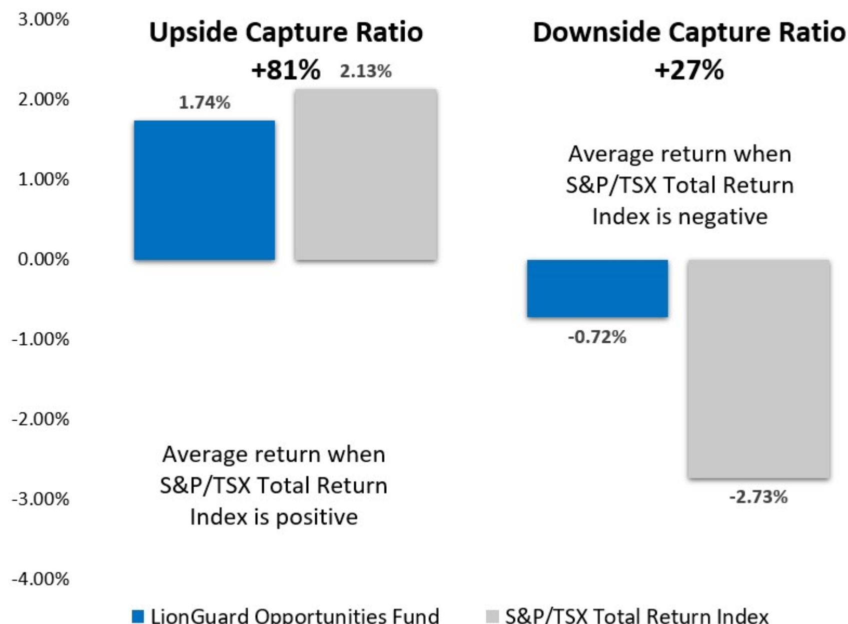
LIONGUARD OPPORTUNITIES FUND
QUARTERLY REPORT – JUNE 2020

Dear everyone,

During the quarter ended June 30, 2020, LionGuard Opportunities Fund ("Opportunities Fund") had a net (after all fees and expenses) return of 7.72%. **Since its inception in October 2014, the annualized net return amounts to 9.68% and cumulative net return to 70.10%.**

Time period	LionGuard Opportunities Fund (net returns)
YTD	-8.12%
1 year	7.72%
3 years (annualized)	2.84%
5 years (annualized)	7.47%
Since Inception (annualized)	9.68%
Since Inception (cumulative)	70.10%

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 81% and downside capture ratio to 27%.



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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.

In conducting our investment operations, we opted to remain on the side of caution and to maintain a very conservative positioning. During Q2/2020, Opportunities Fund's net long exposure amounted to 27% and our average cash levels stood at 17%. Such a highly defensive stance was motivated by an exceptionally uncertain investment environment and our primary mandate to protect investors' capital under all market conditions. Although we did not fully benefit from the market run-up over the last three months, we feel that our caution was fully warranted. At the same time, we made sure to invest in companies that traded at depressed valuation levels despite having solid underlying fundamentals.

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 and medium-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), Iteris (ITI), Vocera (VCRA), American Software (AMSWA)** and others.

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Q2-2020 Contributors:

During the quarter ended June 30, 2020, some of our largest contributors were: **Sangoma Technologies (STC), Canadian Western Bank (CWB),** and **Iteris (ITI)**. On the opposite side, our detractors came mostly from short positions.

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.

Canadian Western Bank (CWB) – The impact of lower oil prices and the economic shutdown due to COVID-19, provided us with an opportunity to acquire shares of CWB at levels that are 30% lower than during the Great Recession. Having studied this bank for many years, we have full confidence in their ability to withstand an economic shock without incurring material (if any) adverse effect on its book value. Buying CWB at a mere 0.6x price/book provided us with ample margin of safety to ensure solid investment returns under even extremely conservative scenarios.

Iteris Inc (ITI) – is another notable contributor for the quarter. Please refer to our Q1/2020 report for a detailed discussion of the company.

Since publishing our quarterly report, Iteris delivered on what we expected. The company divested its non-core Digital Agriculture division for $12M and reported strong Q4 results underpinned by over 18% growth in revenue and impressive margin expansion.

With the sale of the Digital Ag segment, Iteris has now hit a profitability inflection point and is poised to generate strong cash flow in its current fiscal year (~4.5% FCF/EV yield; net cash accounting for 20% of market cap).

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As per our discussion with management, Iteris is well positioned to maintain revenue growth with inflationary-like growth in OpEx, resulting in material operating leverage to the bottom line. We believe market dynamics continue to support a case for sustainable growth driven by:

- **Organic growth fuelled by smart mobility tailwinds** – with the market forecasted to grow at an 11% CAGR for years to come;
- **Minimal impact from the COVID pandemic to date** – the company has not experienced any significant impact from COVID-19 to date;
- **Potential infrastructure stimulus bill** – with the media quoting a US$1.0 trillion potential infrastructure bill;
- **Acquisitive growth** – Iteris could potentially double its EBITDA should it deploy its 20% net cash position into AGI-like acquisitions.

Considering those dynamics and management's solid execution, we remain buyers and supportive shareholders of the company.

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 Czyzowicz 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)

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