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LIONGUARD CANADIAN SMALL CAP FUND
QUARTERLY REPORT – JUNE 2021

Since inception Returns:

During the quarter ended June 30, 2021, LionGuard Canadian Small Cap Fund ("Small Cap Fund") gross returns were at 11.19% comparing favorably to the S&P/TSX Small Cap Total Return Index ("Benchmark") that ended the quarter with a return of 9.15%. Our 5-year annualized return also compares favorably to the benchmark with a return of 15.02% for our Fund whereas Benchmark had a return of 7.34%. **Since inception the Fund delivered 15.02% annualized returns which also compares well with the Benchmark at 7.34%.**

Views on the market:

At the point of this writing, the global economy is undergoing a strong comeback. In addition to massive fiscal and monetary stimulus, several countries started lowering Covid-19 prompted restrictions, which has a direct positive impact on the economic activity. We are also seeing strong pent-up demand, following many months of restrained traveling and socializing. Those dynamics, coupled with much healthier consumer balance sheets vs pre-pandemic levels, are a perfect recipe for a booming economy.

Global stock markets have caught up to these dynamics and most of the broad-based indices are close to or at all-time highs. While some of the overall market dynamics make sense to us, we highlight an increasing amount of fast money attracted to speculative activities and the fact that Covid-19 is not yet fully behind us. We are cognizant of the fact that accommodative policies have their expiration date and there is a price to pay at the end. We also want to take this opportunity to recognize that the economic disparity between various social groups and between in many cases large and small businesses has increased over the last 12-18 months.

Our analysis of the prior post-pandemic periods leads us to believe that many people currently, on average, are increasingly willing to take risks. With three additional forces at work - (1) higher risk tolerance, (2) larger wallet sizes, (3) accelerating massive inter-generational wealth transfer to younger recipients who want to put this capital to work in the market & other much more speculative endeavors - one must wonder whether recent irrational speculative frenzies are just getting started. Thus, risk management especially when it comes to shorting securities and participating in markets prone to "tightness" is as important as it has ever been. Parabolic movements to the upside, above and beyond fundamentals, must be incorporated as part of everyday risk assessment.

With colossal changes taking place simultaneously across numerous industries, the current environment continues to provide ample opportunities for alpha generation based on fundamental research and analysis. Although the overall stock market has done very well, bottom-up stock pickers have done much better in 2020 and so far in 2021. We fully expect such a dynamic to persist for quite some time.
Below are examples of some of the dynamics that our team is following:

- Evolving work-from-home culture & emergence of flexible modular offices:

It is obvious that numerous companies are moving to the so-called "hybrid model", which provides much greater flexibility to employees to work from home while nonetheless effectively participating during group meetings and discussions. Most of the management teams we speak with are in the process of evaluating how their new physical and virtual office environments will function, how much physical square footage can be rationalized, what software solution(s) to use, how to change physical offices towards flexible and modular design, etc.

With a **tsunami of work coming to change traditional offices layouts to highly flexible modular environments,** our investors should not be surprised to see DIRTT Environmental Solutions (DRT-TSX; DRTT-NSDQ) as one of our holdings. We have been following this company closely since 2014 and are exceedingly excited about its immediate and long-term prospects. DIRTT is the world's leader in environmentally friendly modular construction solutions for mainly corporate offices and hospitals. In addition to being a great long-term business poised to disproportionately benefit from the trends described above, **the company's stock price has all the pieces in place to gain from ESG-led allocations**. For more details on DIRTT, see company-specific write-ups below. We also encourage the readers to access DIRTT's 56-page ESG report at:
https://www.dirtt.com/assets/attachments/DIRTT-ESG-Report-2020.pdf

- Booming services economy & people's thirst for in-person experiences:

While we have seen a boom in the "goods economy" throughout the Covid-19 crisis, the "services economy" is extremely well-positioned for a comeback likely significantly overshooting the pre-Covid 2019 run-rate. All our channel checks point to the same conclusion - people desperately want to travel, take cruises, go to restaurants, attend concerts, watch live sporting events, join in-person sports classes, join social clubs, throw parties, etc. Drawing parallels with the past post-pandemic periods, such behavior is likely to persist for years to come. With a lot of capacity removed from various "services industries" during the lockdown, **one should expect to see major shortages from the supply side of the equation coupled with often disproportionately advantageous economics to those who remained in business**.

- The future of select Covid beneficiaries:

Numerous prior trends have greatly accelerated because of Covid-19. Examples include implementation of e-commerce solutions by retailers, usage of supply chain optimization solutions, adoption of digital health offering(s) as part of the employee's insurance packages, etc.

In our opinion, faster top-line growth rates experienced by most businesses have brought forward the adoption of said technologies/processes, rather than have stolen from the future periods. In other words, in many cases, the benefits are real and sustainable unless solely driven by the transactional component which is expected to abate post restrictions.

Specifically, for examples illustrated above, we have full confidence that:

- retailers will continue to invest in their e-commerce presence for years to come.

- C-suite executives will spare no expense to ensure that their businesses use supply chains solutions to better navigate future disruptions.
- businesses will increasingly offer e-health option(s) to their employees to improve productivity and to respond to the increasing demand by their employees.

- Recognition of the importance of ESG practices by all stakeholders:

  As early advocates of socially responsible investing, we much welcome the increased awareness by the investment community of the importance of ESG. With the record amount of capital flowing into the ESG-focused ETF's, we fully expect qualified companies' stock prices to benefit accordingly.

  Furthermore, fund managers of all sizes are more and more sensitive to the underlying companies' ESG practices and increasingly reflect those in their allocations. With such trends poised to accelerate further, a strong case can be made to favor businesses that score well on their ESG practices. In our opinion, it is only a matter of time until the ESG-driven scoring methodology, at the individual company level, is well-developed and actively applied by investment professionals. Gone are the days of ESG by-standers who expect to manage institutional capital and be well-ranked by consultants.

  Increasing pressure from the investment community coupled with consumer's increased awareness of the fragility of the environment, as well as other social injustices, has finally reached corporate C-suites and Boards of Directors. For the first time, we are seeing real tangible changes at the companies themselves. As capital allocation decisions are increasingly made through ESG-mandated processes, businesses that demonstrate a lower environmental footprint are poised to gain significant market share.

Q2-2021 Investment Performance:

LionGuard Canadian Small Cap Fund ("Fund") outperformed the S&P/TSX Small Cap Total Return Index ("Benchmark") during the second quarter of 2021, returning 11.19% against the Benchmark's 9.15%.

The sectors where the Fund performed best in comparison to the Benchmark were Consumer Staples with 124 bps of relative outperformance and Technology with 71 bps of relative outperformance. Sectors where the Fund underperformed vs the Benchmark included Energy with -333 bps of relative underperformance.

Our largest relative contributors came from being overweight in **DIRTT Environmental (DRT) and Converge Technologies (CTS).** At the same time, being overweight in **Sangoma Technologies (STC)** has cost us relative to the Benchmark.

Sangoma Technologies (STC) – The company share price pulled back significantly due to industry-wide valuation compression. We believe the decline is unjustified as despite growing recurring revenue in-line with peers (15%+ organically), STC trades at a significant discount to peers and generates significant profit, which is in sharp contrast to industry players that are losing money. Given that UCaaS has penetrated only

12-14M seats of a 400M seat market, our long-term view of the company and the industry remains bullish and we took advantage of this pullback to purchase more shares in the company.

Converge Technologies (CTS) – Is one of the latest additions to our portfolio. The company is an IT service provider with a rapidly growing managed services segment. The core of the business is to provide high quality hardware, software, and managed services to corporate and government institutions.

We invested in CTS after thorough fundamental research with our thesis predicated on:

- **Favorable industry dynamics** – IT budgets are bound to increase in the post-Covid world as companies continue to invest in resources to facilitate the new remote working reality. We are in the early innings of this major transformation as most large enterprises have not yet started their IT transformation projects due to offices closures. The industry is poised to grow for years to come on the back of post Covid tailwind.

- **A fragmented industry that is ripe for consolidation** – management has identified over 180 acquisition targets in North America alone, and every acquisition is immensely accretive to CTS. So far, the management's track record of capital allocation has been excellent, growing FCF per share at a CAGR of over 30% per year through both organic and acquisition growth.

  Growing managed service revenue and margin expansion opportunity – one of the main pushbacks among investors is the volatility of hardware revenue. However, as the higher margin recurring managed service revenue continues to increase as a percentage of total revenue, we expect CTS to see multiple expansion over time. In fact, the managed service revenue of CTS has been growing at close to 20% range organically, and based on the current growth rate, we envision the managed service revenue stream will exceed hardware revenue in 2025.

- **Despite being a low net margin business, CTS is among a group of elite companies that generate an ROIC well over the cost of capital** – Not surprising given CTS can acquire companies at highly attractive prices, once synergies are accounted for. This is evident in the industry with one of CTS's closest comps, SoftCat, generating over 40% ROIC over the last 10 years with adjusted ROCI >70%. We do not think CTS will be able to generate the same ROIC as SoftCat due to a slightly different operating model; however, given the similarity of their business, we fully expect CTS will continue to generate a strong return on invested capital for years to come.

DIRTT Environmental (DRT) – Due to the lingering impacts of Covid-19, DRT Q2 results failed to meet street expectations. However, as we look past these transitory results, we focus on three key developments in the quarter:

- **Based on current quoting and bidding activities, management is calling the trough, and anticipates activity to rebound significantly in the second half of this year**. Based on internal channel checks, with U.S. economy reopening and workers going back to the office, office reconfiguration is top of mind for most management teams. According to a recent article authored by Mr. Michael Ford, who sits on the Board of Directors of DIRTT and is the head of

Microsoft's multi-billion real estate portfolio, office configuration of the post pandemic era will favor modular construction design because of its inherent advantages (*flexibility to reconfigure office space at will*). We expect to see a wave (tsunami if you will) of office reconfigurations to be a massive top line growth driver for DIRTT for years to come. DRT is extremely well positioned to capture market share when the floodgate of office reconfiguration is unleashed.

- **DRT published its first ever ESG report, we believe this is a major milestone for two reasons:** 1) ESG focused ETFs and funds will start paying more attention to DRT and could one day become a holding of those investment vehicles (*positive from a capital flow perspective*); 2) Announcing publicly the company's commitment to sustainable construction could attract partners and clients who share the same commitment; hence, expanding company's reach to markets that were previously not available.

- **One of the major modular construction companies, Modulaire Group, was acquired by a group of shrewd investors**. Although the business of Modulaire Group is not directly comparable to DRT, the transaction clearly highlights the opportunities within this space and validates modular construction industry. We believe the acquisition of Modulaire Group sets the stage for industry consolidation with DIRTT having all the characteristics in place as a fantastic target for many strategic and financial buyers.

Corporate Updates:

Our team remains focused on identifying numerous mispricing opportunities present among North American small- and medium-capitalization equities. The current market environment bodes well for fundamental stock picking despite higher overall market levels. Rather than making a call on the direction of the markets, we much prefer managing the capital in a prudent manner by investing in unique situations with highly attractive upside-to-downside profiles.

We take this opportunity to welcome Sahib Singh, CPA, as a Controller to our team. Sahib brings extensive accounting and audit experience to LionGuard Capital Management where he will oversee our internal accounting processes.

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)