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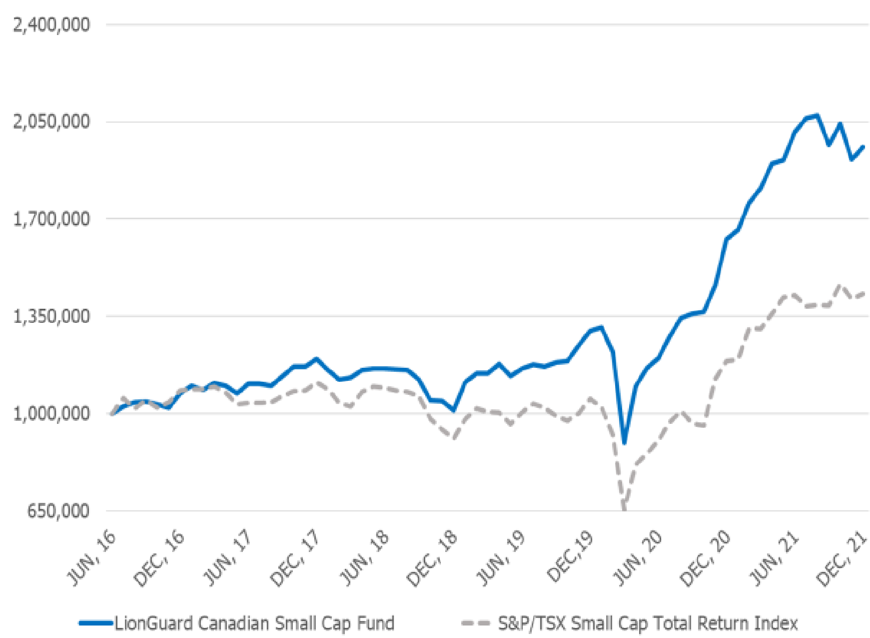
LIONGUARD CANADIAN SMALL CAP FUND
INVESTMENT REPORT – YEAR 2021

Since Inception Returns:

LionGuard Canadian Small Cap Fund ("Small Cap Fund") gross returns for the year 2021 were at 20.39% comparing favorably to the S&P/TSX Small Cap Total Return Index ("Benchmark") that ended the year with a return of 20.27%. Our 5-year annualized return also compares favorably to the benchmark with a return of 12.80% for our Fund whereas Benchmark had a return of 5.75%. **Since inception the Fund delivered 13.01% annualized returns which also compares well with the Benchmark at 6.73%.**



Join Forces With INFLATION:

Our review of the year would not be complete without reiterating our view on the topic of the day – inflation! Rather than recapping our thoughts on the subject, here is what we wrote about it in our Q3/21 report:

With high inflation likely here to stay (careful with buying into Fed's transitory inflation – new comment since Q3 report: note that the Federal Reserve finally abandoned this view in Q4/21*), many investors are wondering what to do in an environment when the purchasing power of their currency is eroded year after year. Historically, the stock market has proven to be a good place to invest to counter the harmful effects of inflation. Numerous businesses can, after all, over time, pass on price increases to their customers.*

The best businesses to consider during times of high inflation are those with strong pricing power and low requirements for additional capital investments. Pricing power is often linked to the perceived brand value, as well as the structure of the industry in which said business operates. Real estate tends to perform well because of the higher replacement cost unless sizeable additional capital is required to maintain the property. Software-centric technology companies, that can scale up easily, are certainly very well-

positioned relative to unscalable and capex-heavy alternatives. This is the case during most environments but is especially so when inflation is in high gear. Capital-light businesses can accelerate the growth of their revenues and potentially further expand their margins despite higher labor costs.

The worst businesses to invest in during a high inflationary environment are those that operate in commoditized industries and thus command no pricing power. One should certainly stay away companies that have long duration commitments at fixed prices. Most long-term commercial contracts do include inflation adjustments, yet it is often the case that their realized margins often end up lower during the fulfillment cycle.

We strongly discourage investors from holding high cash levels and from allocating capital to long duration fixed income securities. Handpicked high-quality businesses, acquired at sensible prices, should materially outperform such alternatives, especially during the environment of high inflation. Overall, high inflation should not be of too much concern to investors who can identify businesses that are able to not only protect their current businesses but can further deepen their moats vis-à-vis weaker rivals.

Q4-2021 Investment Performance:

LionGuard Canadian Small Cap Fund ("Fund") underperformed the S&P/TSX Small Cap Total Return Index ("Benchmark") during the fourth quarter of 2021. During this period, the Fund returned -0.41% as compared to Benchmark at 3.03%.

The sectors where the Fund performed best in comparison to the Benchmark were Real Estate with 93 bps of relative outperformance and Consumer Staples with 75 bps of relative outperformance. Sectors where the Fund underperformed vs the Benchmark included Materials with -177 bps of relative underperformance and Energy with -95 bps.

Year 2021 Contributors:

Our largest relative contributors came from being overweight in **Photon Control (PHO)**, **Mainstreet Equity (MEQ)**, and **AirBoss of America (BOS)**. At the same time, being overweight in **mdf commerce (MDF), GoodFood (FOOD)**, and **HLS Therapeutics (HLS)** has cost us relative to the Benchmark.

Photon Control (PHO) – Please refer to our Q1/21 report for a detailed discussion of the company. In it, we highlighted the attractiveness of the company as a stand-alone investment and a high probability of it being taken out if it continues to trade at these levels. At that time, Photon Control had a). high net cash position b). high profitability metrics c). solid visibility on the industry growth rate for years to come d). numerous synergistic benefits to potential strategic acquirers. We, therefore, were not surprised when on May 10, 2021, MKS Instruments (U.S. peer to Photon Control) announced its intention to acquire the company for $3.60/share. On one side, we were pleased to see PHO (the company we followed from when it traded under $0.10/share) get the recognition it deserves, on another side we were saddened to have another great Canadian small-cap tech champion leaving the public market.

Over the years, we have seen numerous high-quality tech and other companies that we invested in taken out by private equity players, strategic buyers, or other suitors. At the same time, we added to our circle of competence an even greater number of new companies, which have the characteristics that are extremely attractive to prospective acquirers. We, therefore, fully expect to continue to see a high number of takeouts (around 4 per year has been our run-rate) in the fund on a going-forward basis. Below are some of our takeout examples over the last few years.

Mainstreet Equity (MEQ) – is an Alberta-based residential real estate company specialized in the acquisition, redevelopment, divestiture, and management of mid-market rental apartment buildings. The company owns and manages over 15,000 units in Western Canada (21% in BC, 57% in Alberta and 22% in Saskatchewan).

While MEQ operates in a REIT-like model, it is not incorporated as a REIT and has proven to be one of the top capital allocators in our universe. As a result of the former, the company does not have to distribute most of its earnings as dividends and thus gets to accumulate and reinvest its capital at extremely impressive rates as seen in its 15% CAGR over the last 24 years while maintaining its share count essentially flat since IPO.

We attribute this success to the excellent acumen of its CEO as well as MEQ's unique value-enhancing model whereby it has been able to extract value from assets it acquires at below replacement costs by adopting an in-house vertically integrated construction model.

While we see MEQ as a very well-run operation, we also take this opportunity to highlight favorable macro tailwinds in play for years to come:

- Immigration – Canada is anticipated to increase the number of immigration intake post-pandemic, and new immigrants tend to favor cities that have a low cost of living, which is where MEQ focuses on.

- Western Economy Recovery – Oil price recovery and efforts by the Albertan government to diversify the economy should drive near- and long-term positive impacts on MEQ western-focused operations.

- Interest rate – Rising interest rate could lead to even lower housing affordability for Canadians, and therefore, higher demand for rental apartments.

Conclusion:

I take this opportunity to highlight the ongoing commitment, to do their utmost best, from all our team members. Our organization continues to expand as this week we welcomed another person, to assist on the client servicing side of the business.

We are also very thankful to our committed clients, who continue to recognize our stock picking abilities, within a highly inefficient part of the market, by entrusting us with increasing amounts of their capital.

Yours sincerely,

Andrey Omelchak, CFA
President, CEO & Chief Investment Officer
(on behalf of LionGuard Capital team)