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LIONGUARD MARKET NEUTRAL STRATEGY
INVESTMENT REPORT – YEAR 2021

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 Market Neutral Strategy ("Strategy") had a negative net return of -3.83% during the fourth quarter of 2021. Long positions cost 23 bps while shorts cost 360 bps. The sector with the biggest positive contribution was Financials at 108 bps while the sector with the largest negative contribution was Industrials at -143 bps.

Year 2021 Contributors:

Our largest contributors during the period were our long positions in **Franklin Covey (FC US), American Software (AMSWA US), and Photon Control (PHO)**. Our biggest detractors included our longs in **Purple**

Innovation (PRPL) and **mdf commerce (MDF).** Please refer to our Franklin Covey and Photon Control write-ups:

Franklin Covey (FC US) – is one of our top contributors for the year. Please refer to our detailed reports on FC in our 2021 quarterly letters. As discussed in our Q3/21 letter, FC's execution over the last few quarters has been nothing short of phenomenal. On the back of the ongoing transition to recurring revenue, higher-margin business model, the company has now turned into a cash flow machine (7.0% FCF yield), delivering double-digit organic revenue and profitability growth, and just over $200M in sales within an $80Bn+ addressable market.

We continue to expect Franklin Covey's growth and profitability metrics to outperform, buoyed by accelerating growth in the Enterprise and Education divisions as well as the ongoing expansion of their sales force. In fact, we believe that based on historical sales reps' revenue ramp, the company is well-positioned to meet its objectives without having to hire new reps for the remainder of the year. Moreover, with ~90% of training days now delivered online (as opposed to on-site prior to the pandemic), the company is well-positioned to navigate the ongoing surge in Covid cases with very minimal disruption to its operations.

We continue to be supportive shareholders of Franklin Covey as it trades at a significant discount to intrinsic value (which keeps increasing at a fast pace on the back of phenomenal management execution) relative to its fundamentals and market opportunity. With SaaS-like metrics at a fraction of the valuation of a typical SaaS company (7% FCF; ~3.5x implies EV/AAP sales vs precedents 7x+), Franklin Covey remains one of the most compelling ideas in our universe.

Photon Control (PHO CN) – 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.

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LionGuard sample list of take-outs

Ticker	Transaction Value (Million)	Acquirer	Year
RP US Equity	10,000	Private Equity	2021
PRSP US Equity	4,646	Private Equity	2021
DH CN Equity	2,765	Private Equity	2017
CARB US Equity	1,359	Strategic	2019
SVC CN Equity	571	Private Equity	2017
CAM CN Equity	496	Mgmt buyout	2017
GS CN Equity	419	Strategic	2019
PHO CN Equity	387	Strategic	2021
SHSP US Equity	240	Strategic & Private Equity	2021
HGN CN Equity	223	Strategic	2017
NLN CN Equity	180	Strategic	2018
BPE CN Equity	140	Strategic	2017
PIH CN Equity	130	Strategic	2017
RC CN Equity	130	Strategic	2017
SDY CN Equity	123	Management buyout	2020
GPS CN Equity	108	Strategic	2019
RLH US Equity	89	Strategic	2020
SPAN US Equity	76	Strategic	2017
NII CN Equity	53	Strategic	2017
EBN CN Equity	28	Strategic	2017

Sources: LionGuard Capital Management, Bloomberg

Conclusion:

We 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)