



LIONGUARD U.S. SMALL CAP FUND INVESTMENT REPORT – YEAR 2021

Dear Investors,

LionGuard U.S. Small Cap Fund outperformed its benchmark, the Russell 2000 Total Return Index (“Benchmark”) in 2021, with a return of 19.56% as compared to a 14.81% return for the Benchmark.

The sectors where the Fund performed best in comparison to the Benchmark were Industrials with 984 bps of relative outperformance, Technology with 550 bps of outperformance, and Communications with 239 bps of relative outperformance. Sectors where the Fund underperformed vs the Benchmark included Consumer Discretionary with –506 bps of relative underperformance and Financials with -161 bps of relative underperformance.

During the fourth quarter of 2021, our fund underperformed its benchmark, the Russell 2000 Total Return Index, with a return of 1.38% as compared to a 2.14% return for the Benchmark.

The sectors where the Fund performed best in comparison to the Benchmark were Healthcare with 191 bps of relative outperformance and Energy with 65 bps of outperformance. Sectors where the Fund underperformed vs the Benchmark included Consumer Discretionary with –240 bps of relative underperformance and Financials with -65 bps of relative underperformance.

Year 2021 Contributions:

Our largest drivers of outperformance came from positions in **Franklin Covey (FC)**, **Donnelley Financial (DFIN)**, and **Issuer Direct (ISDR)**. At the same time **SelectQuote (SLQT)** and **Purple Innovation (PRPL)** detracted from our performance relative to the Index.

We take this opportunity to discuss **Franklin Covey (FC)**, **Issuer Direct (ISDR)**, and **Donnelley Financial (DFIN)**.

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.

Issuer Direct (ISDR US) – is one of our top contributors for the year. Please refer to our Q3/20 report and subsequent letters for detailed discussions about the name.

Since introducing Issuer Direct into our funds, the company has (a) delivered 6 consecutive quarters of double digit organic revenue growth including 3 quarters of 20%+ growth; (b) significantly expanded its margin profile, achieving 6 consecutive quarters of margin expansion with EBITDA margin growing from 13.8% in 2019 to ~24% in FY21E; (c) grown its customer base from 2,246 in 2019 to 3,500 as of Q3/21 all through organic means; (d) bought back \$2.0M worth of stock at an average price of ~\$11.00/share (vs stock price at \$32 today) including the last tranche done at \$23.00/share; (e) generated significant cash flow taking its net cash balance from \$15M to \$22.5M or 18% of its market capitalization and (f) announced a strategic partnership with \$52 Bn market cap company, IHS Markit after 6 months of talks, which could help the company to move further upstream as it provides ISDR with the opportunity to do business with larger companies serviced by IHS.

Donnelley Financial (DFIN US) – is one of our top contributors for the year. Please refer to our Q1/21 letter for a detailed discussion about the name. Donnelley is a leading global risk and compliance solutions company with well over 50% in recurring revenue.

We came across DFIN in the summer of 2020 with at least 100% upside based on its Sum-Of-The Parts, an opportunity that existed due to poor screening (unattractive headline numbers and profitability metrics) masking the true power of the overall company.

Based on extensive due diligence, we concluded that DFIN was indeed a powerful tech-enabled (scalable to an extent) company mistaken for a print business, a fact that the market caught onto a few quarters later as the stock appreciated from ~\$15/share to \$46/share as the company's (a) cost-cutting and operating model transformation shifting the mix from print to software took effect, (b) recurring and highly "sticky" software business experience consistent double-digit organic growth in that period, (c) balance sheet improved from 1.6x D/EBITDA to ~0.5x today on the back of significant cash flow generation and (d) its transactional business benefitted from an increased scale on the back of strong capital markets activity.

The company delivered significantly ahead of even our own expectations and while we continue to see it as a great business with strong prospects for years to come (*capital markets activity translates to higher Lifetime value once they retain the client*), we right-sized our weight on the way up to recycle the capital into other companies with an even more compelling upside to downside profiles.



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,

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