LionGuard Capital Management Inc.
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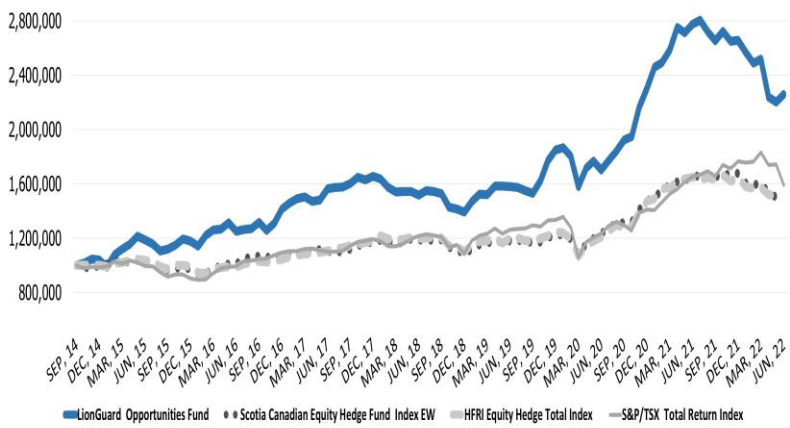
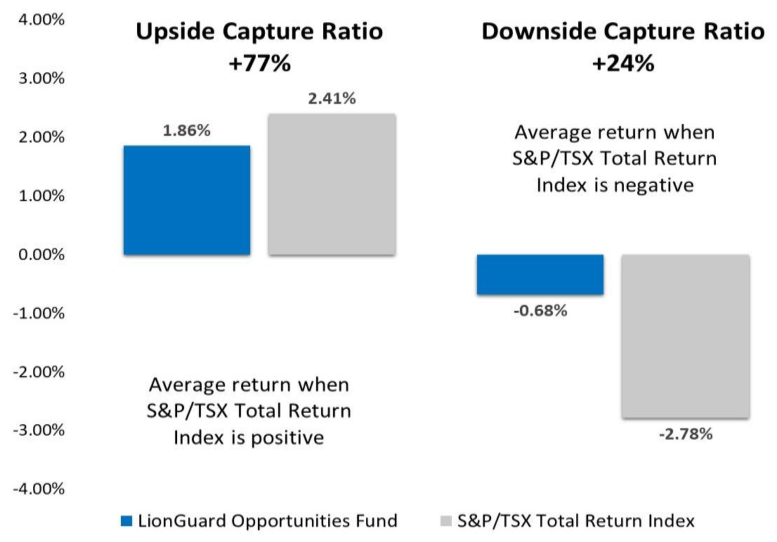
LIONGUARD OPPORTUNITIES FUND
QUARTERLY REPORT – JUNE 2022

Dear Investors,

During the quarter, LionGuard Opportunities Fund ("Opportunities Fund") had a net return (after all fees and expenses) of -10.39%. **Since the Opportunities Fund's inception, its annualized net return amounts to 11.07%.**



As compared to the broad market index (S&P/TSX Total Return Index), the Opportunities Fund's since inception upside capture amounted to 77% while its downside capture was only 24%.



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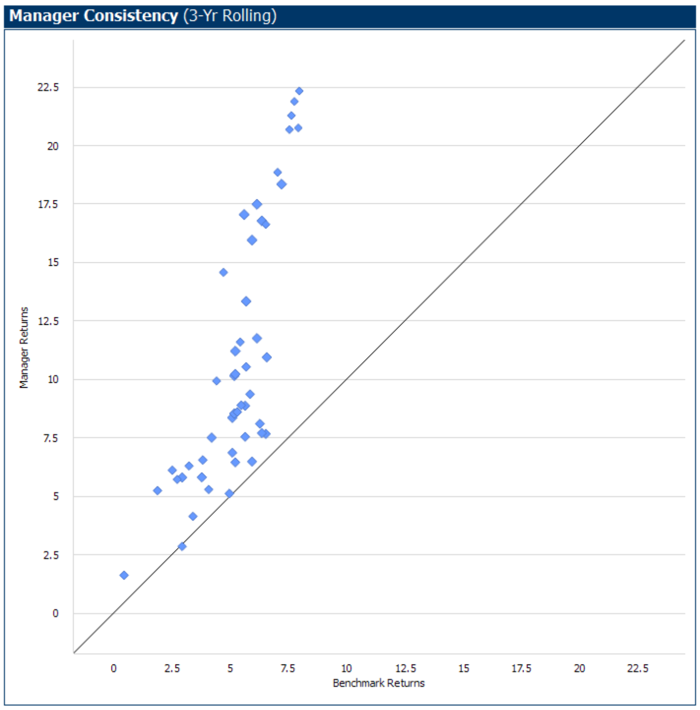
In addition to the industry-leading downside capture ratio, we outperformed all major North American market indices while maintaining an average net long exposure of 61% and holding an average of 10% of the Fund's assets in cash.

When compared to HFN Long/Short Equity Index, a well-recognized global benchmark for Long/Short equity managers, LionGuard Opportunities Fund has consistently outperformed industry peers over almost all 3-year monthly rolling time frames.



Sources: eVestment, LionGuard Capital Management

Stock Market Inefficiencies:

The stock market is filled with inefficiencies that rational investors, who can think and act (two very distinct matters) independently from the crowd, can take advantage of. Some examples of said inefficiencies are the following:

- **12 months out target prices**: The investment industry is almost entirely structured around valuing public companies one year from now. Why everyone is so fixated on the stock price 12 months from today, is a worthwhile investigation. What we do know is that such an arcane approach has nothing to do with long-term shareholder value creation. It encourages short-term thinking and drifts investors towards becoming renters of equity rather than holders of businesses. Such a mindset is not conducive to long-term profits.

- **Valuation methodologies**: Numerous finance professionals value companies based on methodologies, which have nothing or very little to do with business fundamentals. They simply opt to use the same techniques that others are using, even when they often recognize that such techniques are inappropriate. The most notable of these is a "price-to-sales multiple". When their methodologies are shattered (usually during market turmoil), they typically lower valuation multiples, while still using the same methodology, for the companies in question. Since there is no tangible basis to rely on, they end up revising multiples directionally in tandem with changes in multiples for "comparable" securities. In the process, they let the market dictate changes in the value of the business. Of course, a true value of the business is the present value of its future cash flows. Over time, the value of the business tends to gravitate towards its intrinsic value computed using this approach.

- **Market timing**: A great majority of investors engage in the practice of market timing. Despite all the evidence to the contrary, they believe that they can predict when "the market will turn" or that "there will be better buying levels". The fallacy of systematically overestimating their market timing abilities often precludes even the most astute professionals from selling overpriced securities when they are more than favored by the market and taking advantage of seemingly obvious investment opportunities during market corrections. Rather than allocating the capital towards activity where they have high predictive ability (such as buying a quality business at a cheap price), investors are usually betting on something where they have very little odds of getting it right (market timing). Over the longer-term, the practice of market timing ends up being a very costly exercise.

- **Stock price ranges**: Prior stock price ranges have absolutely nothing to do with the value of the business today. Nevertheless, most investors examine stock price charts to make determinations whether the company is an attractive buy or whether a stock price "needs a pause" on its upward trajectory. Investors will be well-suited to disregard prior stock price levels and focus solely on underlying business fundamentals. This will preclude them from buying a stock that has corrected and appears cheap when the fundamental picture for the business does not warrant such actions. It will also facilitate them to keep holding a winning company as it continues to deliver outstanding results year in year out.

Compounding Benefits of Superior Management Teams:

The quality of the management team is of paramount importance to long-term shareholder value creation. Great management teams strive to find ways to improve business economics in any environment with the cumulative benefit of their exceptional actions compounding over time for the benefit of shareholders in a way that is often underestimated by investors. During the times of market turmoil, such management teams matter more than ever.

Since we have been in the market turmoil for several months now, we thought it would be appropriate to discuss, albeit at a high level, why management teams matter so much and what the companies we invest in are doing now, which will be beneficial to shareholder over time.

First and foremost, we search for management teams with an unquestionable level of integrity. Such individuals treat employees, business partners, clients, and shareholders with respect and a sense of fairness in all circumstances. In the process, they develop stronger business ties and much more loyal personnel. They also work for the long-term benefit of the company and thus its shareholders rather than their own pockets.

Certainly, in the best of worlds, management interest would be directly linked to that of shareholders. This brings us to another point: alignment of interests with minority shareholders. Alignment of interest can be achieved through a compensation structure that leads to shareholder value creation. The best alignment of interest, however, is high insider ownership through the purchase of shares in the open market or the initial ownership of shares. In many cases, we invest in companies led by a founder who is also a significant shareholder in the business. Such individuals are not trying to get the biggest possible annual bonus by delivering on their plan often linked to factors that have nothing to do with the long-term share price appreciation but rather think and act in a way that leads to long-term share price appreciation. Best of all, management teams with a lot of skin in the game truly care. They outthink and outwork their competitors. They are the kind of people we want to invest in and do business with.

We also look for management teams that are exceptional at day-to-day activities AND have a long-term vision for the business. Each business requires taking care of a million small and large tasks daily. Within larger organizations, top management can hire capable individuals to support them in such activities. In smaller companies, it is common for a few senior people to be personally engaged in a lot of day-to-day activities. Whatever the case might be, the best management teams can effectively tackle the issues at hand today and execute a long-term vision for the business. Decomposing long-term vision into smaller tasks and getting them done one by one is another characteristic of effective managers. Clearly, no vision can be achieved without taking numerous small steps to get there.

The last point we will write about here is the need for management teams, as well as the members of the board of directors, to demonstrate exceptional capital allocation savviness. Any business can allocate capital in three primary ways: return capital to shareholders (dividends, share buybacks), internal initiatives (sustain operations, grow the business), and external initiatives (mergers, acquisitions). It is imperative that capital allocation decisions among prevailing alternatives provide for high rates of return on deployed capital. If the company can invest in internal growth initiatives at high rates of return, then it should do so. If they are focused on acquiring other companies, such acquisitions need to be accretive on a per-share basis for existing shareholders. If the current stock price is so low that they can buy back their own shares in the public market and generate high returns on this activity, they should do so. The relative attractiveness of all prevailing investment alternatives must be looked at objectively without any biases.

In the current market environment, we could not be prouder of many of the management teams that run the businesses we invest in. Over the last several months, we have seen numerous proactive actions from many of them which include buybacks, Dutch Auctions, accretive acquisitions, increases in insider ownership, prudent cost-cutting initiatives, etc. With so much confusion in the stock market as to the direction of the market, our management teams are demonstrating adaptability to changing landscape, ability to execute on opportunistic business transactions, shifts in capital allocation priorities, etc.

Oftentimes, the quoted market price for securities is largely disconnected from business fundamentals. When the stock with a top management team trades significantly below its intrinsic value, you may have uncovered a great business to invest in. Such opportunities rarely last for long, but they do happen a lot during a broad-based market sell-off.

Q2-2022 Contributors:

During the quarter, one of our largest contributors was **Franklin Covey (FC US)**. On the opposite side, our detractors of note included **Sangoma Technologies (STC CN), Softchoice (SFTC CN)** and **Issuer Direct (ISDR US)**. Please see comments on these businesses below.

We discussed **Franklin Covey (FC US)** at length during prior quarterly reports. FC's management team continues to execute superbly with the intrinsic value of the business increasing materially over the last 3 months. Concurred with the last quarterly results, FC raised its outlook (for the second time this year!!) for 2022 and increased its guidance for future years as well. In addition to outstanding execution on the business front, they actively bought back a sizeable portion of outstanding shares and committed to remaining active if the market conditions continue to provide them with buying opportunities.

Franklin Covey remains one of the most exciting investment choices. We compute the latest intrinsic value of the business at US$120/share for an upside of 155%. We would not be surprised one bit, if FC becomes a so-called "multi-bagger" over the next 5+ years, given the size of its addressable market, the quality of their product vis-à-vis competitors, the quality of their management team energized to capitalize on the opportunity including their capital allocation discipline.

The pullback in **Sangoma Technologies (STC CN)** stock price has nothing to do with business fundamentals. At the current price, it generates a free cash flow yield of more than 17%! On the business front, it continues to grow organically at double digits. The Company just initiated a Normal Course Issuer Bid, which makes tremendous sense given the highly irrational stock price level. Clearly, buying back own shares represents one of the best capital allocation decisions at these levels, especially on a risk-adjusted basis, that Sangoma shareholders can benefit from.

We discussed **Softchoice (SFTC CN)** at length in the Q1/22 report. Market's confusion around their investments for the future, which have a high rate of return, is an opportunity to buy the business on the cheap. We remain of the view that Softchoice is one of the best undiscovered and under-owned compounders in Canada! Our base-case DCF points to an upside of more than 150% from current levels.

The pullback in **Issuer Direct (ISDR US)** is an opportunity to buy a piece of a business run by an outstanding entrepreneur, who is 100% aligned with shareholders, at highly discounted prices. The company is buying back shares in the open market, which makes perfect sense since they are at a 30% net cash position!

We welcome stock market volatility, as it provides us with an opportunity to buy great businesses at highly attractive prices. Time and time again, this has proven to be a winning recipe to help to compound our investors' capital at higher rates of return and with a much lower level of risk-taking (especially when such an activity is done on strong companies with top management teams – make sure to read our write-up above on the importance of top management teams!).

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Other Matters:

Last month Josh Wilson joined our team as Chief Compliance Officer. Josh has over 25 years of experience in Compliance and Risk Management. After starting his career in various Compliance roles with the Financial Industry Regulatory Authority (FINRA) in the US, he became a trainer at the FINRA Examiner University and Advanced University. Subsequently, he became Director of Examinations at the National Stock Exchange (NSX) where he led the member audit program. After moving to Canada, Josh worked for global financial institutions acting as Chief Compliance Officer for their US and Canadian operations and was the regional head of compliance for up to six jurisdictions. With are excited to have Josh joining our team, which now amounts to 9 professionals.

We take this opportunity to thank our committed clients who entrust us to compound their capital over a long period of time. In the same way as top management teams have high insider ownership (see our write-up on the importance of investing with the best management teams above), we have our own capital invested in LionGuard funds. Our interests have always been and will always be perfectly aligned with those of our clients.

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)