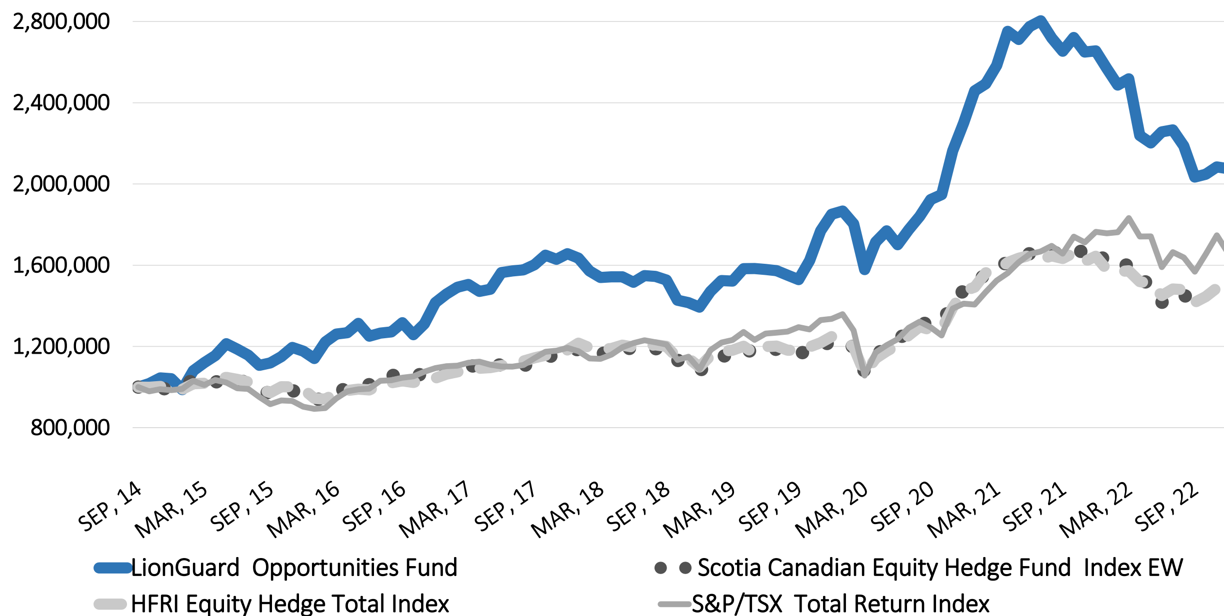
LIONGUARD
CAPITAL MANAGEMENT INC.

LionGuard Capital Management Inc.
1010 rue Sherbrooke Ouest, Suite 2350
Montréal (Québec) Canada, H3A 2R7
www.lionguardcapital.com

LIONGUARD OPPORTUNITIES FUND
YEAR 2022 REPORT

Performance

LionGuard Opportunities Fund ("Fund") performance vs. S&P/TSX Total Return Index, Scotia Canadian Hedge Fund Index EW and HFRI Equity Hedge Total Index



	LionGuard Opportunities Fund Net Return	S&P/TSX Total Return Index
2014 (Oct-Dec)	4.11 %	(1.47) %
2015	13.07 %	(8.32) %
2016	20.30 %	21.08 %
2017	17.00 %	9.10 %
2018	(15.90) %	(8.89) %
2019	32.88 %	22.88 %
2020	24.32 %	5.60 %
2021	15.37 %	25.09 %
2022	(21.84) %	(5.84) %
Cumulative Since Inception	**107.55 %**	**66.17 %**
Compound Annual Return	**9.25 %**	**6.35 %**

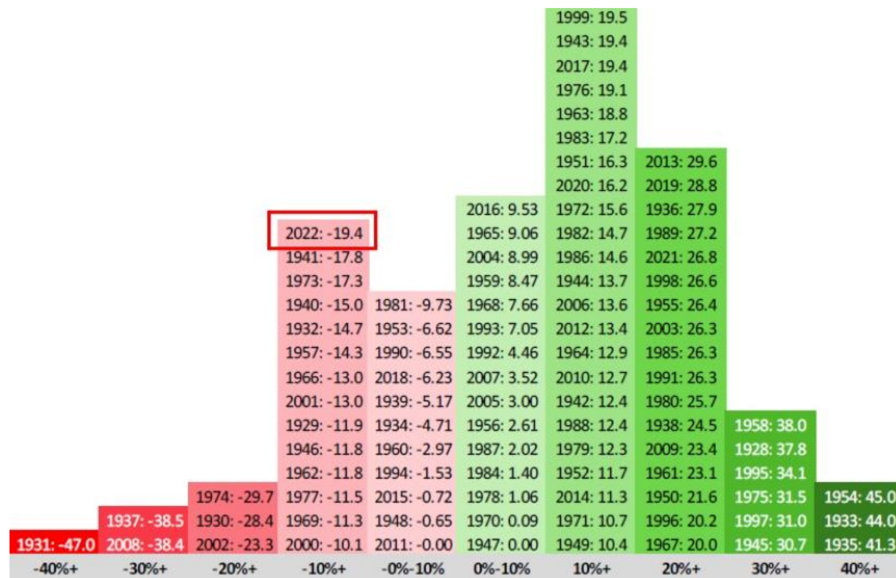
Disclaimer: This document does not represent an offering of securities in any jurisdiction and is for informational purposes only. The securities described herein are only available to Accredited Investors and Institutional Investors in Canada by private placement in accordance with applicable securities laws. The information disclosed in this summary is incomplete and is qualified in its entirety by the Offering Memorandum for the LionGuard Opportunities Fund LP and the Trust wrapper as warranted. Fund's returns have been calculated by Fund Administrator, are net of all fees. Note that for the period of October 2014 to November 2016, the performance is based on Class S units with adjustment to 1.00% base management fee. LionGuard Capital Management Inc. does not warrant the accuracy of the presented information nor is responsible for any actions taken as a result of this report. The indicated rates of returns are historical returns based on changes in values of applicable class of units and do not take into account sales, redemption, distribution, or optional charges or income taxes payable.

LionGuard Capital Management Inc.
1010 rue Sherbrooke Ouest, Suite 2350
Montréal (Québec) Canada, H3A 2R7
www.lionguardcapital.com

Commentary

Historic Market Environment

It was a very tough year for global equity markets. S&P 500 Index delivered a return of -19.4%, NASDAQ -33.1%, Dow Jones Industrial Average -8.8%, and Russell 2000 Index -21.6%. Canadian market indices fared much better, due to the massive outperformance of energy stocks (benefitting from the devastating war in Ukraine). To put the performance in perspective, it was the 7th worst year for the S&P 500 Index since 1929.



What is even more staggering is that fixed-income instruments did not fare well resulting in one of the worst performances in history for a 60/40 (60% stocks and 40% fixed income) portfolio.

Opportunities Fund Performance

During the quarter ended December 2022, LionGuard Opportunities Fund had a net return of 2.02%. For 2022, the Fund's net return amounted to -21.84%. Since inception, its compound annual net return amounts to 9.25% and cumulative net return to 107.55%. This compares to 6.35% and 66.17%, respectively, for S&P/TSX Total Return Index.

2022 was the hardest performance year since Opportunities Fund's inception. We make no excuses for this; we should have done better despite broad-based market sell-off and irrational market quotations.

We look forward to continuing to compound our investor's capital by taking advantage of structural inefficiencies available within small and medium-capitalization equities. Despite a higher mark-to-market impact than we would like to see last year, stock market volatility (and especially indiscriminate often forced selling activity for smaller-capitalization equities) provides us with unique opportunities to buy great businesses at highly attractive prices. Time and time again, this has proven to be a winning recipe

Disclaimer: This document does not represent an offering of securities in any jurisdiction and is for informational purposes only. The securities described herein are only available to Accredited Investors and Institutional Investors in Canada by private placement in accordance with applicable securities laws. The information disclosed in this summary is incomplete and is qualified in its entirety by the Offering Memorandum for the LionGuard Opportunities Fund LP and the Trust wrapper as warranted. Fund's returns have been calculated by Fund Administrator, are net of all fees. Note that for the period of October 2014 to November 2016, the performance is based on Class S units with adjustment to 1.00% base management fee. LionGuard Capital Management Inc. does not warrant the accuracy of the presented information nor is responsible for any actions taken as a result of this report. The indicated rates of returns are historical returns based on changes in values of applicable class of units and do not take into account sales, redemption, distribution, or optional charges or income taxes payable.

LionGuard Capital Management Inc.
1010 rue Sherbrooke Ouest, Suite 2350
Montréal (Québec) Canada, H3A 2R7
www.lionguardcapital.com

to compound our investors' capital at higher rates of return and with a lower level of risk-taking than investing in the overall market.

Excessive Irrationality Leads to Takeouts

We strongly believe that excessive mark-to-market irrationality for high-quality businesses cannot persist for an extended period. One piece of evidence in support of this assessment is the high number of takeouts we experienced last year. 3 out of the top 4 contributors during the year (see details below) were attributable to businesses being bought out. This provides firm evidence that strategic buyers are stepping in to take advantage of highly attractive pricing levels currently offered by the market.

Seizing Assets on The Cheap *(from Q3/22 write-up)*

During the broad-based selloffs, like we are currently experiencing, with some companies' market quotations falling greatly below their fair values, those willing to "steal" companies on the cheap are certain to show up. Strategic buyers, management buy-outs, and private equity players can often "pull the trigger" at the right price. For private equity participants, even with higher prevailing interest rates, the math can still make sense depending on how cheap the asset has become.

Most boards of directors recognize the disconnect between market quotations and the true value of the businesses they oversee, yet often fail to take action to lower the probability of a take-out on the cheap. Best boards, however, are never asleep at the wheel and take proactive actions to take advantage of the environment. If the company is operating with an excessive cash level (or even an under-levered balance sheet relative to the quality of the business adjusted for the business environment), the usage of cash must become a strategic priority.

Typical alternatives include Dutch Auctions, Normal Course Issuer Bids, and acquisitions of other businesses on the cheap. Many of the businesses we invest in today are doing a fantastic job of using their excess cash to take advantage of this environment. Several of the companies we invested in were acquired last year and some are in the process of a strategic review at this time. Clearly, mispriced high-quality assets cannot stay cheap forever.

Businesses You Own

As we examine our top holdings, we see a group of businesses with broadly the following characteristics:

- Business quality: very high insider ownership, excellent management teams, high organic growth rates, solid pricing power, high return on invested capital, ability to reinvest earnings at very high rates of return, large addressable markets, high levels of free cash flow conversion, flat to expanding margin profiles, high balance sheet flexibility, little requirements for capital expenditures, etc.

- Business valuation: high free cash flow yields to enterprise value, high upsides using conservative DCF assumptions.

Disclaimer: This document does not represent an offering of securities in any jurisdiction and is for informational purposes only. The securities described herein are only available to Accredited Investors and Institutional Investors in Canada by private placement in accordance with applicable securities laws. The information disclosed in this summary is incomplete and is qualified in its entirety by the Offering Memorandum for the LionGuard Opportunities Fund LP and the Trust wrapper as warranted. Fund's returns have been calculated by Fund Administrator, are net of all fees. Note that for the period of October 2014 to November 2016, the performance is based on Class S units with adjustment to 1.00% base management fee. LionGuard Capital Management Inc. does not warrant the accuracy of the presented information nor is responsible for any actions taken as a result of this report. The indicated rates of returns are historical returns based on changes in values of applicable class of units and do not take into account sales, redemption, distribution, or optional charges or income taxes payable.

We feel confident in knowing that we (and you!) own high-quality businesses managed by properly incentivized individuals. Such businesses are commonly referred to as compounders. We also feel privileged to be able to own them at highly attractive prices.

Closing Valuation Gap

Here is how we think about timing when the market quotation will likely close the gap (or at least most of it) with intrinsic value. First, there are two extremes:

- Patient approach – Wait for the market to get it right. The rule of thumb here is a 3-year window. In a very high percentage of cases, assuming the valuation work is done correctly, the market quotation shall revert closer to intrinsic value. If within a 3-year window it did not materialize, it is very likely that an investment thesis needs to be re-examined.

- Almost immediate outcome – Business is getting actively "shopped around" and in the current market environment it should get the recognition it deserves. Thus, there is an immediate catalyst at play and there is no impediment in place why the transaction value should be materially different from the intrinsic value.

Of course, there is an infinite number of in-between possibilities. Some of the examples include new large shareholders stepping in as investors, an increase in the liquidity of security (a leading indicator of a multiple expansion), high short interest relative to the average daily trading volume (high odds of a short squeeze as shorts' thesis falls through), very sought-after assets by private capital participants (much higher odds of a takeout), the very savvy management team (watch out for Dutch Auctions, large NCIBs, non-core assets divestitures, highly accretive strategic acquisitions, etc.), and many more.

An ability to realize the upside sooner leads to much higher annualized returns. Therefore, catalysts that can close the gap sooner need to be accounted for when it comes to position sizing within the Fund. Any such catalysts however can never come at the expense of the quality of the investment and the degree of certainly offered by a patient approach over a 3-year investment horizon. Note that our focus businesses with top management teams, who have interests aligned with minority shareholders, naturally lead to various positive catalysts that are especially apparent during volatile market environments.

The Fallacy of Market Timing *(from Q2/22 write-up)*

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.

Disclaimer: This document does not represent an offering of securities in any jurisdiction and is for informational purposes only. The securities described herein are only available to Accredited Investors and Institutional Investors in Canada by private placement in accordance with applicable securities laws. The information disclosed in this summary is incomplete and is qualified in its entirety by the Offering Memorandum for the LionGuard Opportunities Fund LP and the Trust wrapper as warranted. Fund's returns have been calculated by Fund Administrator, are net of all fees. Note that for the period of October 2014 to November 2016, the performance is based on Class S units with adjustment to 1.00% base management fee. LionGuard Capital Management Inc. does not warrant the accuracy of the presented information nor is responsible for any actions taken as a result of this report. The indicated rates of returns are historical returns based on changes in values of applicable class of units and do not take into account sales, redemption, distribution, or optional charges or income taxes payable.

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.

Contributors

During 2022, some of our largest contributors included Franklin Covey (FC US), Houghton Mifflin (HMHC US), Lifeworks (LWRK CN), and KnowBe4 (KNBE US). Note that HMHC, LWRK, and KNBE were acquired in 2022. We subsequently re-deployed proceeds into other highly attractive opportunities. On the opposite side, our detractors included various long positions and especially Sangoma Technologies (STC CN).

- **Franklin Covey (FC US)** – Franklin Covey remains one of our highest conviction investments with its intrinsic value pointing to an upside of around 100% from the current levels. We wrote extensively about FC in past reports, which clearly explain why we believe it to be a multi-year compounder.

- **Houghton Mifflin (HMHC US)** – What has been historically perceived as a cyclical lumpy business, was in fact a business in the mid stages of an ambitious yet successful transition to a Digital-first, more reoccurring, higher margin model. When we took a position in HMHC, our base case intrinsic value pointed to a stand-alone upside of at least $27/share. This excluded any incremental improvement in the business / stronger than historical mid cycle billings. Our base case LBO generated ~$26/share valuation yielding ~18% IRR for a potential acquirer with just 10% FCF improvement. Thus, the takeout by Veritas Capital at $21/share severely undervalued the company.

Disclaimer: This document does not represent an offering of securities in any jurisdiction and is for informational purposes only. The securities described herein are only available to Accredited Investors and Institutional Investors in Canada by private placement in accordance with applicable securities laws. The information disclosed in this summary is incomplete and is qualified in its entirety by the Offering Memorandum for the LionGuard Opportunities Fund LP and the Trust wrapper as warranted. Fund's returns have been calculated by Fund Administrator, are net of all fees. Note that for the period of October 2014 to November 2016, the performance is based on Class S units with adjustment to 1.00% base management fee. LionGuard Capital Management Inc. does not warrant the accuracy of the presented information nor is responsible for any actions taken as a result of this report. The indicated rates of returns are historical returns based on changes in values of applicable class of units and do not take into account sales, redemption, distribution, or optional charges or income taxes payable.

LionGuard Capital Management Inc.
1010 rue Sherbrooke Ouest, Suite 2350
Montréal (Québec) Canada, H3A 2R7
www.lionguardcapital.com

- **Lifeworks (LWRK CN) –** Lifeworks was acquired by Telus for an 80% premium (to the prior day's closing price). We believe that Telus paid fair value for these assets.

- **KnowBe4 (KNBE US)** - Received an offer to be acquired by Vista Equity Partners for $24/share, or 39% premium to the pre-announcement closing price. We believed the offered price significantly undervalued the business and would have preferred for the company to remain public.

Disclaimer: This document does not represent an offering of securities in any jurisdiction and is for informational purposes only. The securities described herein are only available to Accredited Investors and Institutional Investors in Canada by private placement in accordance with applicable securities laws. The information disclosed in this summary is incomplete and is qualified in its entirety by the Offering Memorandum for the LionGuard Opportunities Fund LP and the Trust wrapper as warranted. Fund's returns have been calculated by Fund Administrator, are net of all fees. Note that for the period of October 2014 to November 2016, the performance is based on Class S units with adjustment to 1.00% base management fee. LionGuard Capital Management Inc. does not warrant the accuracy of the presented information nor is responsible for any actions taken as a result of this report. The indicated rates of returns are historical returns based on changes in values of applicable class of units and do not take into account sales, redemption, distribution, or optional charges or income taxes payable.

- **Sangoma Technologies (STC CN)** – The company's stock price corrected tremendously despite solid execution and high levels of free cash flow generation. In our opinion, current trading levels are largely disconnected from business fundamentals. At this point, we would not be surprised to see a management buyout and/or other forms of value-unlocking developments.

Perfectly Aligned + Focused on Performance

I am extremely fortunate to work alongside bright, passionate, and committed individuals. What is especially fulfilling is the common sense of purpose that unites us, as we are determined to deliver the best possible value for our clients while being good global citizens.

Last summer 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.

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, we have our own capital invested alongside yours. Our interests have always been and will always be perfectly aligned.

We are utterly focused on taking advantage of numerous prevailing market opportunities and much look forward to reporting on our progress.

Sincerely,

Andrey Omelchak, CFA
President & Chief Investment Officer
LionGuard Capital Management

Disclaimer: This document does not represent an offering of securities in any jurisdiction and is for informational purposes only. The securities described herein are only available to Accredited Investors and Institutional Investors in Canada by private placement in accordance with applicable securities laws. The information disclosed in this summary is incomplete and is qualified in its entirety by the Offering Memorandum for the LionGuard Opportunities Fund LP and the Trust wrapper as warranted. Fund's returns have been calculated by Fund Administrator, are net of all fees. Note that for the period of October 2014 to November 2016, the performance is based on Class S units with adjustment to 1.00% base management fee. LionGuard Capital Management Inc. does not warrant the accuracy of the presented information nor is responsible for any actions taken as a result of this report. The indicated rates of returns are historical returns based on changes in values of applicable class of units and do not take into account sales, redemption, distribution, or optional charges or income taxes payable.