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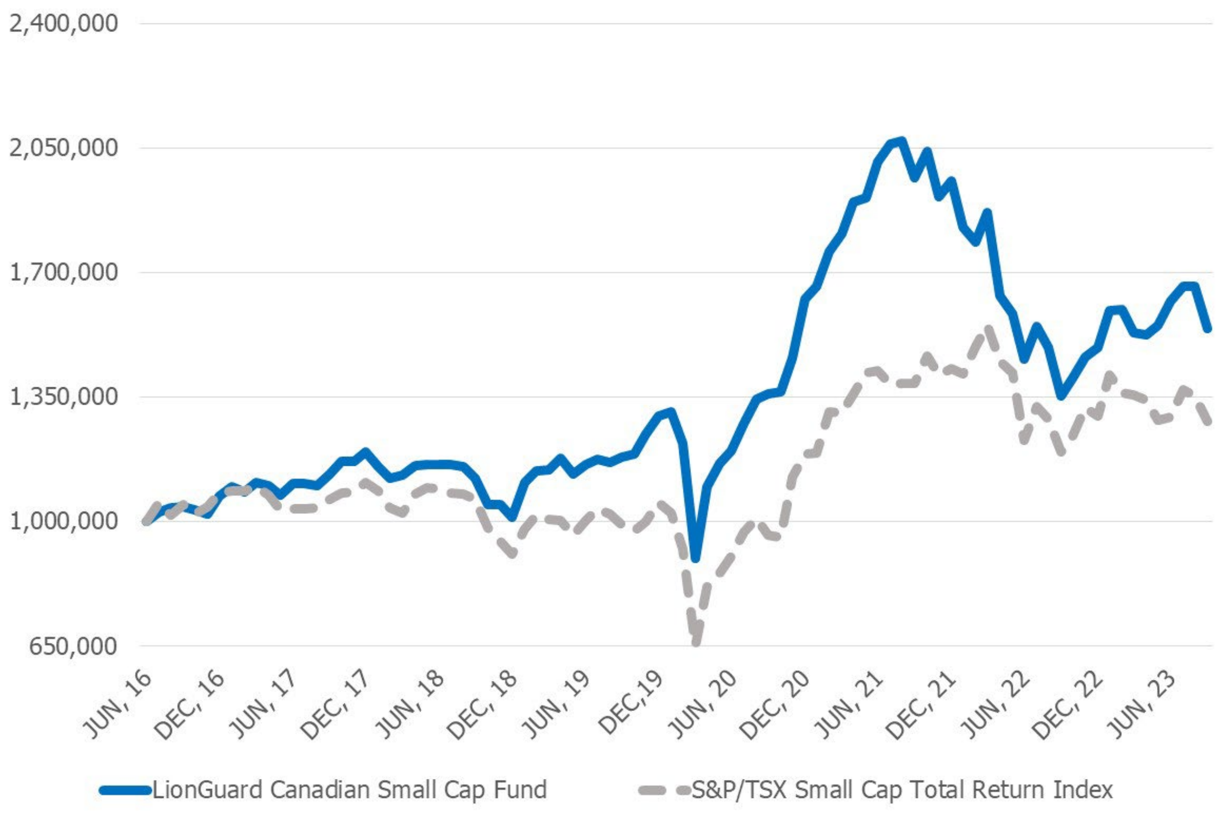
LIONGUARD CANADIAN SMALL CAP FUND
Q3-2023 REPORT

Performance

During the quarter ended September 30, 2023, LionGuard Canadian Small Cap Fund ("Small Cap Fund") returns amounted to -4.91% versus S&P/TSX Small Cap Total Return Index ("Benchmark") return of -0.79%.

Our 5-year annualized return of 6.56% compares favorably to that of the Benchmark at 3.85% for **annualized value added of 2.71%**.

Since inception the Fund delivered 6.16% annualized returns versus that of the Benchmark at 3.50% for **annualized value added of 2.65%**.



Commentary

Market Commentary

During Q3, the global financial landscape has been a complex interplay of rising interest rates, soaring oil prices, and a resurgence in value stocks vis-à-vis their growth counterparts. The bullish momentum that

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initially lifted stocks out of a bear market has dissipated. The "Magnificent Seven" stocks have retracted amidst revived recession warnings and soaring yields. On the global front, unrest caused by escalating oil prices and interest rates led to a $6 trillion loss in world stocks since late July.

Expectations of the Federal Reserve lowering rates were dashed as "higher for longer" became Wall Street's newest mantra, leading to the bond market teetering on its third consecutive down year. The persistent strength of the dollar, amplified by the Federal Reserve's stance, is exerting undue pressure on global currencies, driving a shift in investor preference towards the relative sanctuary of cash holdings amidst the prevailing high rates.

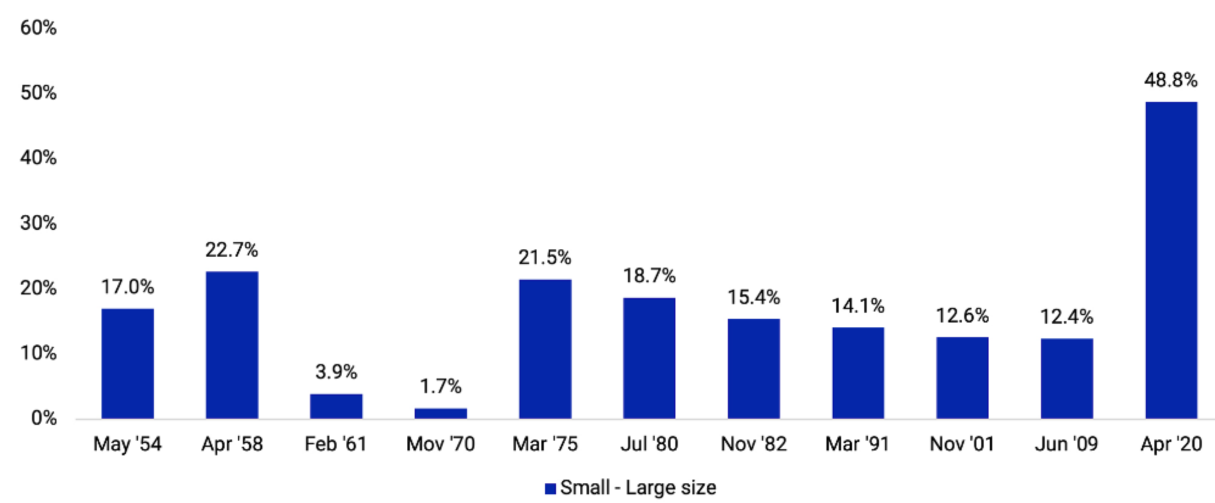
Major stock market indexes retreated due to revived recession warnings and rising yields. The small-cap sector, particularly, faced significant headwinds, which is normal in this context of the overall market. Year-to-date small caps are now flat and all S&P500 gains can be explained by the largest few tech companies. On an equally weighted basis, S&P500 companies have not registered any gains.

BIG Smaller Capitalization Opportunities

Small capitalization stocks are often considered a barometer of the domestic economy's health. In the lead-up to a recession, these companies tend to experience sharper corrections in comparison to their large-cap counterparts. This heightened sensitivity is primarily attributed to on average more limited financial resources, higher borrowing costs, and substantial reliance on domestic revenue streams.

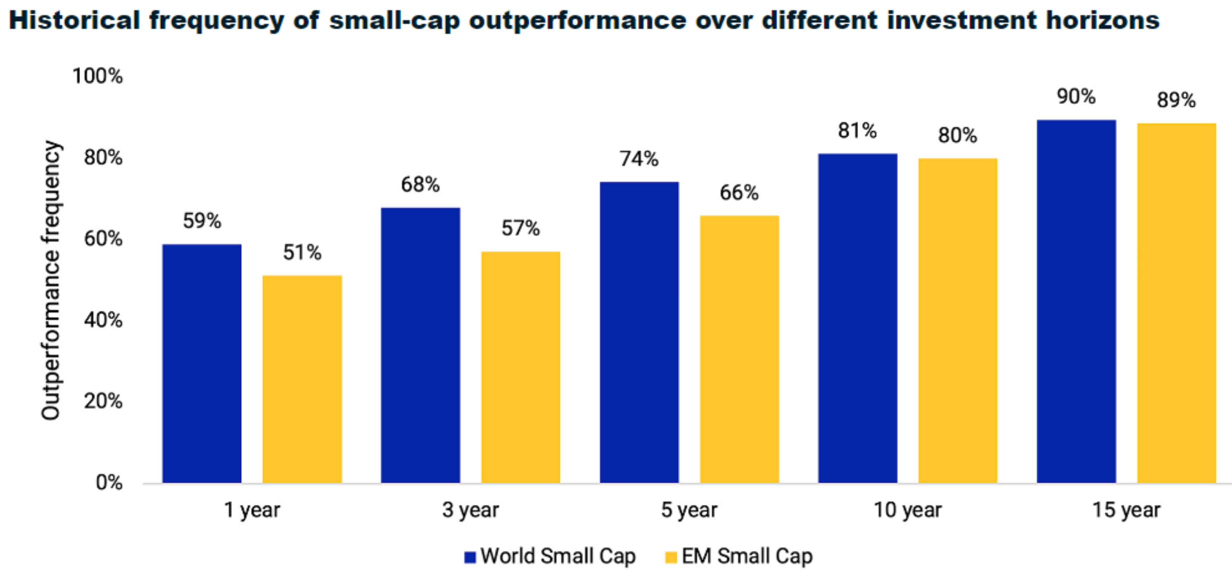
However, post-recession, small caps have historically demonstrated a propensity to strongly outperform larger firms during the recovery phase. Their nimbleness allows them to adapt quickly, and they are positioned to capitalize on economic upswings, leading to potentially higher returns for investors who have the risk tolerance to weather the preceding downturn and the patience to wait for the economy to rebound.

US small-cap-factor outperformance in the 12 months following recessions



Source: MSCI, Kenneth R. French Data Library
Methodology: The exhibit shows the active performance of a U.S. small-cap (size-sorted bottom 30%) cap-weighted portfolio over of a U.S. large-cap (size-sorted top 30%) cap-weighted portfolio for the 12-month period following recessions.

In addition, it is important to remember, that small capitalization equities have an excellent track record of outperforming their large capitalization counterparts over an extended period.



Source: MSCI, Kenneth R. French Data Library
Methodology: The exhibit shows the percentage of instances when small-cap stocks (represented by the MSCI World Small Cap Index or the MSCI Emerging Markets Small Cap Index) outperformed large-cap stocks (represented by the MSCI World Index or the MSCI Emerging Markets Index, respectively) in a rolling-window analysis. The analysis periods are November 1975 to June 2023 for the world and December 1998 to June 2023 for the emerging-markets region. The track record of the MSCI World Small Cap Index is proxied by the MSCI World Equal Weighted Index prior to December 1998 due to data limitations.

In our opinion, a notable disconnect has become evident between the intrinsic values and market pricing of numerous high-quality small-cap stocks. Despite robust fundamentals, characterized by healthy balance sheets plus strong and growing cash flows, these firms are trading at large discounts to intrinsic values. Interestingly, this mispricing is not going unnoticed. An uptick in acquisition activity is clear, marked by an increased appetite for takeouts by private equity firms, strategic buyers, and management-led buyouts. This trend is particularly remarkable given the elevated cost of capital. It underscores a strong conviction in the latent value embedded in these small-cap entities, where buyers are willing to absorb higher capital costs to unlock and harness this value.

Contributors

During the quarter, some of our largest contributors included EQB (EQB CN) and TFI International (TFII CN)

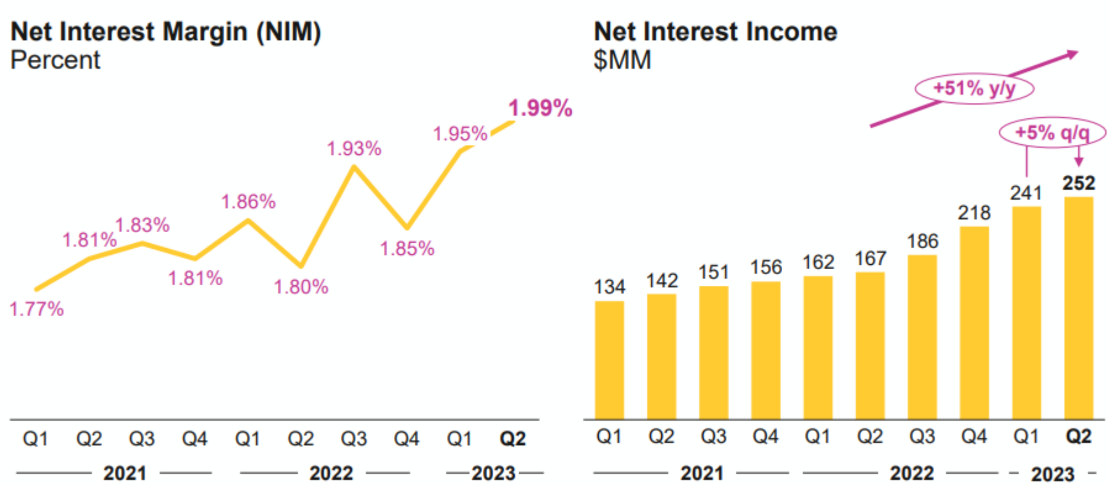
- **EQB (EQB CN)** – EQB's outstanding performance in Q2/23 and the large upward revision in the 2023 guidance showcase a bank that is on a very solid footing, thanks in large part to its top management's effectiveness and strategic execution. New guidance, including the projected ROE of over 16% and diluted EPS growth rate of 18-21%, indicates a bank that is agile and responsive in optimizing its long-term earnings potential. These financial metrics are underpinned by the management's excellence in treasury management, a factor that has been instrumental in the expansion of Net Interest Margin (NIM).

Updated and increased guidance
Adjusted measures

Financial measures	Actual Results YTD June 2023 Reflects YTD y/y	Original Guidance[3] 2023 12-month Reflects annual y/y	Updated Guidance[3] 2023 12-month Reflect annual y/y	Guidance for 2023 10-month period to October 31, 2023
Return on Equity (ROE)[1]	17.5%	15%+	16%+	16%+
Pre-Provision Pre-Tax Income Growth (PPPT)[1]	47%	25-35%	30-35%	$490-520MM
Diluted EPS Growth[1]	27%	10-15%	18-21%	$9.00-9.20 / share
Dividend Growth	26%	20-25%	20-25%	20-25%
BVPS Growth[2]	7.5% (YTD)	12-15%	14-16%	11-13%
CET1 Ratio	14.1%	13%+	13%+	13%+

Source: EQB Q2/23 Quarterly Presentation

NIM expanding with lending business mix, funding diversification and Treasury management



Source: EQB Q2/23 Quarterly Presentation

Furthermore, EQB is a testament to sound risk management practices. The bank's resilience in credit metrics, even amidst market uncertainties, signifies a financial institution that is rooted in strategic operational efficiency. These are not transient achievements but are reflective of a management team that is strategically aligned, operationally adept, and focused on delivering consistent, tangible value to its long-term shareholders.

Given EQB's demonstrated growth and consistent outperformance compared to larger banks, it's increasingly clear that the current discount at which it trades is unwarranted. In our assessment, EQB isn't merely keeping pace with larger institutions but is distinguishing itself through superior performance and value generation, underscoring a narrative of excellence that is far from being reflected in its market pricing.

Focused on Performance

We are excited about our ongoing commitment to compound our investors' capital through deliberate investments in high-quality mispriced businesses.

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