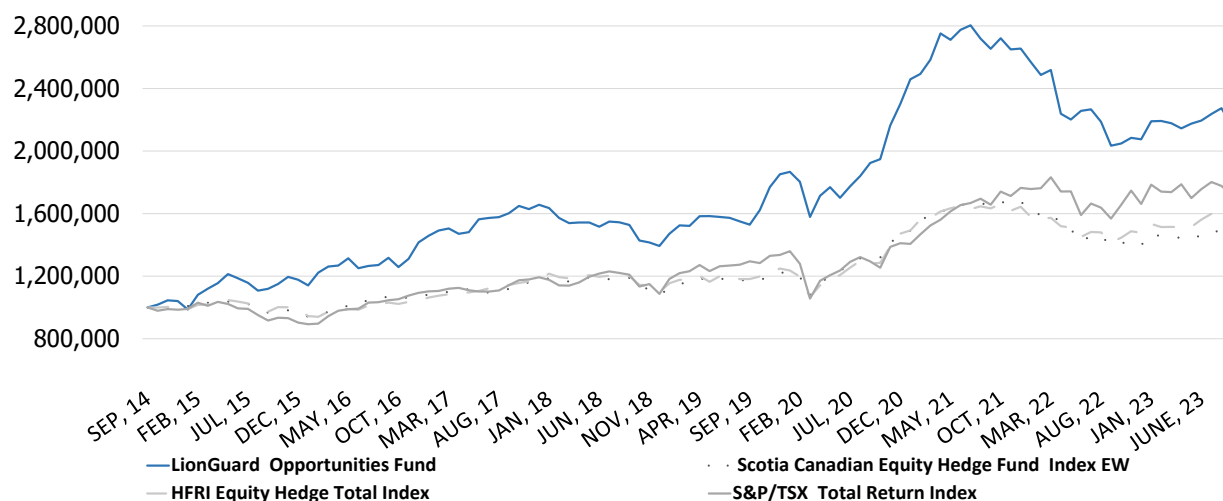




LIONGUARD OPPORTUNITIES FUND Q3-2023 REPORT

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.



During the quarter ended September 2023, LionGuard Opportunities Fund had a net return of -1.52%. Since inception, its compound annual net return amounts to 8.94% and cumulative net return to 116.19%. This compares to 6.20% and 71.78%, respectively, for S&P/TSX Total Return Index.

	LionGuard Opportunities Fund Net Return	S&P/TSX Total Return Index
2014 Since Inception (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) %
2023 YTD (Jan-September)	4.16%	3.38 %
Cumulative Since Inception	116.19 %	71.78 %
Compound Annual Return	8.94 %	6.20 %

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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 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.

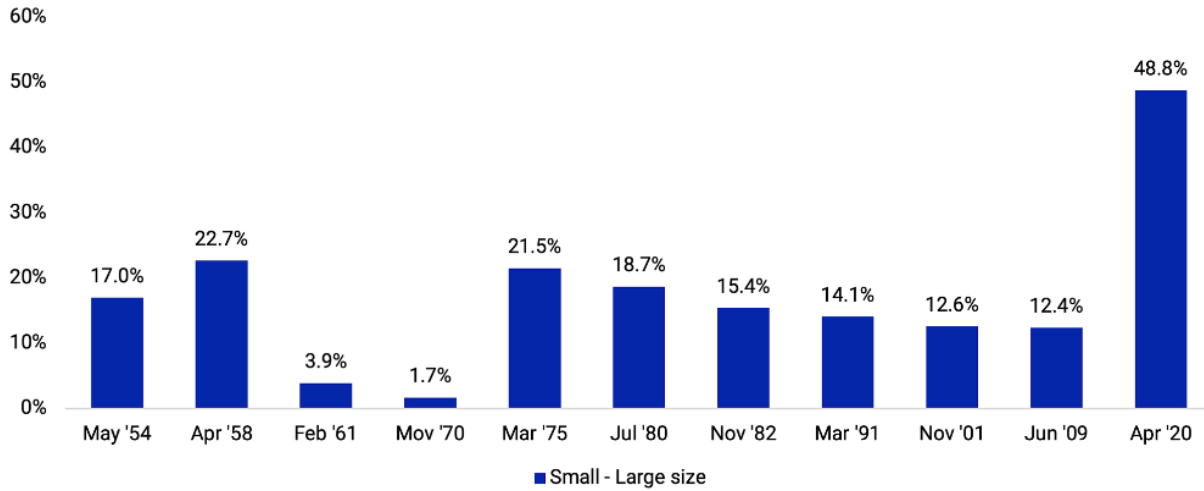
BIG Smaller Capitalization Opportunities

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

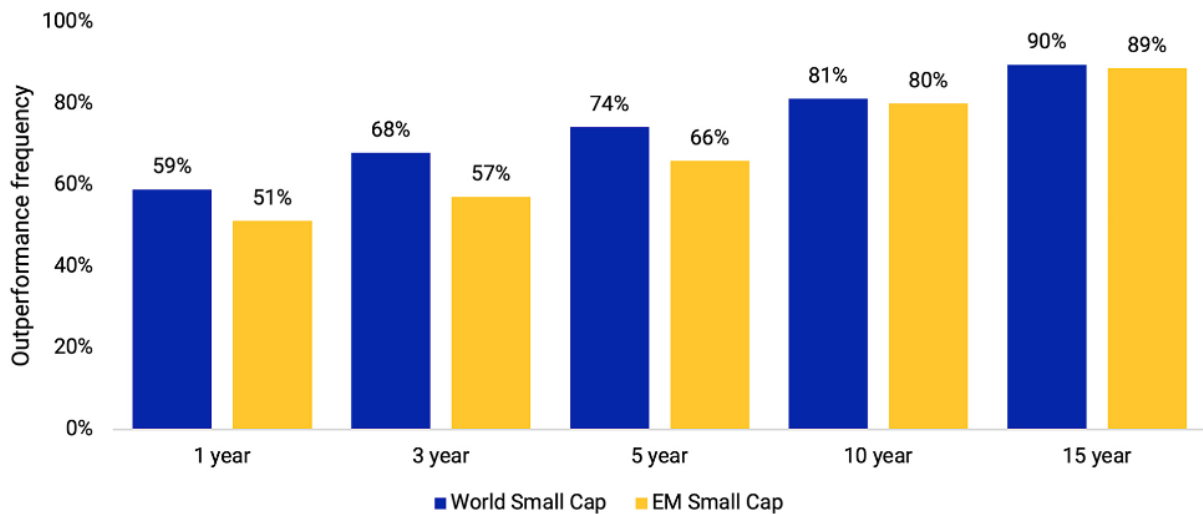


Source: MSCI, Kenneth R. French Data Library

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.

Historical frequency of small-cap outperformance over different investment horizons



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.

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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 Burford (BUR US), while OneSpan (OSPN US) has cost performance.

- **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%+

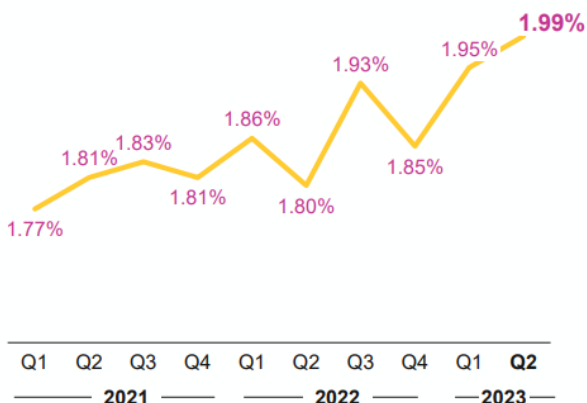
Source: EQB Q2/23 Quarterly Presentation

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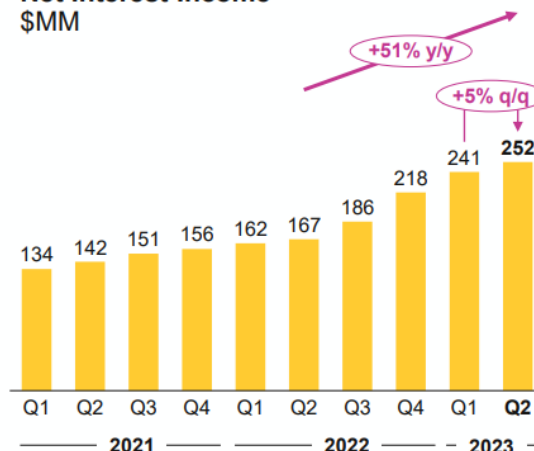


NIM expanding with lending business mix, funding diversification and Treasury management

Net Interest Margin (NIM)
Percent



Net Interest Income
\$MM



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.

- **Burford (BUR US)** – BUR's massive victory in the Petersen and Eton Park cases is a pivotal development in the company's journey. This win against the Republic of Argentina and YPF is a reflection of BUR's adeptness in legal proceedings, affirming its capability to turn intricate legal cases into great financial gains.

The court's final judgment on the Petersen and Eton Park cases represents a total liability of approximately US\$16 billion payable by Argentina to the plaintiffs. BUR's estimated entitlement from this judgment is around US\$6.3 billion. To put it in perspective, this is compared to BUR's current market capitalization of US\$2.9 billion. Although it is very hard to estimate the present value of this asset, it is fair to say that it is worth anywhere between 30% and 100%+ of the current market capitalization.

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In addition to a massive win above, the company's ongoing performance signals a strong and accelerating operational stride. The growth is attributed to ongoing pandemic-related court recoveries, but also due to the greater acceptance by businesses to recognize financial gains today while foregoing the optionality of payoff associated with costly legal proceedings. With accelerated recoveries, BUR can better respond to its record capital deployments opportunities, which on average can deliver more than 25% returns (and potentially much higher) over the investment cycle.

In our opinion, even if we give zero credit to a massive win against the Republic of Argentina, the company continues to trade at levels not reflecting its excellent track record of returns on capital deployed and very strong growth trajectory for new capital deployments.

- **Onespan (OSPN US)** – Concurrently with its last quarterly results, OneSpan (OSPN) announced that it is undergoing a significant shift in its operational model, pivoting from a fast-growth focus to emphasize enhanced profitability with still solid top line growth. Management has expressed confidence in this revised strategy, facilitated by insights derived from a comprehensive view into the company's operations and business trajectory.

The company has accelerated cost reduction initiatives, targeting improved profitability metrics. To affect this transition, OneSpan is restructuring into two distinct operating units: digital agreements and security solutions. This structural refinement aims at optimizing operational excellence, with each unit having its dedicated general manager to steer its respective business strategy.

Trusted Security Partner to Global Blue-Chip Enterprises

Banking	Other Financial Services	Insurance	Government	Healthcare	Other

Source: OneSpan Q2/23 Quarterly Presentation

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OneSpan management anticipates this strategic realignment to yield a 20%-23% adjusted EBITDA margin by the full year 2024, a huge leap from the earlier projection of 10%-12% in 2025. The company also eyes a quicker attainment of the “Rule of 40” and plans to return up to \$20 million to stockholders by the end of 2023.

We regard OSPN as a premier provider of security solutions, entrusted by some of the world’s leading institutions, as per above. Their pivot towards enhanced profitability is a strategic move that, in our opinion, has merit. Given where the stock price trades, market participants currently give zero credit to the management team for being able to deliver on their 2024 targets. As they demonstrate their progress towards stated targets, we would expect investors’ skepticism to abate.

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