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LIONGUARD OPPORTUNITIES FUND
Q3-2024 REPORT

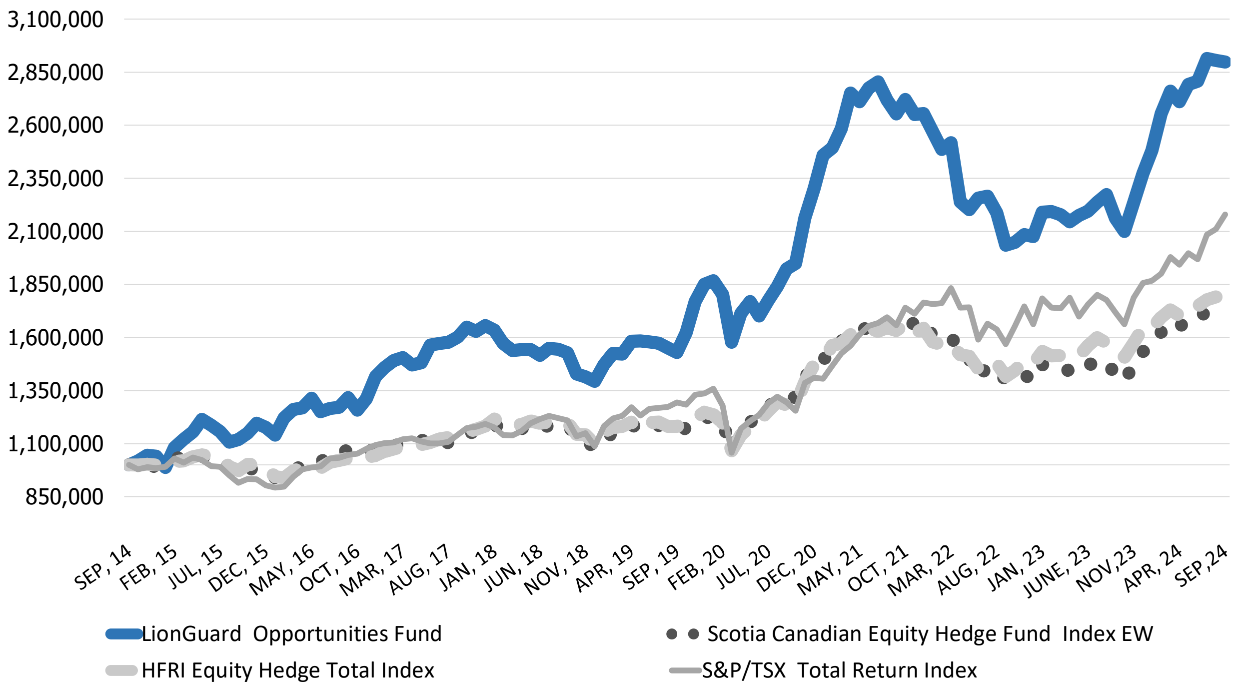
10-Year Track Record

As we celebrate the 10-year track record of the fund, we want to express our gratitude to all our investors, partners, team members, and service providers who have been instrumental in our journey. Your trust, dedication, and support have helped us tremendously, and for that, we are incredibly thankful.

While we reflect on the successes and numerous lessons of the past decade, we are even more excited about the future—we're clearly just getting started! We remain committed to inherent value of detailed fundamental research and stay true to our core belief that the benefit of continuously learning and refining our investment management expertise also compounds over time.

Our Results

Exhibit 1: Investment Performance



Sources: Bloomberg, LionGuard Capital

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Investment Performance

Since inception in October 2014, LionGuard Opportunities Fund ("Fund") delivered annualized net return of 11.23%. This compares to S&P/TSX Total Return Index at 8.11%.

	LionGuard Opportunities Fund	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) %
2023	14.38 %	11.75 %
2024 (Jan-Sept)	22.11 %	17.40 %
Annualized Net Return	**11.23 %**	**8.11 %**

Annualized net outperformance of 3.12% goes a long way over 10-year horizon. On a compounded basis, the Fund delivered a net return of 189.88% versus S&P/TSX Total Return Index at 118.02%.

	LionGuard Opportunities Fund	S&P/TSX Total Return Index
2014 (Oct-Dec)	4.11 %	(1.47) %
2015	17.71 %	(9.67) %
2016	41.60 %	9.37 %
2017	65.67 %	19.33 %
2018	39.33 %	8.72 %
2019	85.14 %	33.59 %
2020	130.17 %	41.08 %
2021	165.56 %	76.47 %
2022	107.55 %	66.17 %
2023	137.39 %	85.69 %
2024 (Jan-Sept)	189.88 %	118.02 %
Cumulative Net Return	**189.88 %**	**118.02 %**

Magic of Compounding

The human brain is not naturally wired to grasp the full power of compounding. We tend to think linearly, so the exponential growth that compounding delivers over time is difficult to intuitively understand. The difference of even one percentage point in returns, compounded over a long period, can create great differences in outcomes.

For example, consider the difference in growth between two investments over 30 years: one compounding at 10% annually, the other at 11%. While a 1% difference may seem negligible in the short term, over 30 years, $1 grows to approximately $17.45 at 10%, but to $22.89 at 11%. Similarly, an investment compounding at 15% grows to about $66.21, while at 16%, it grows to around $85.85 over the same period.

Table below provides an illustration of the power of compounding that is worthwhile to remember.

Exhibit 2: Illustrative growth of $1 over time, rounded

	5%	10%	15%	20%
10 years	$1.63	$2.59	$4.05	$6.19
20 years	$2.65	$6.73	$16.37	$38.34
30 years	$4.32	$17.45	$66.21	$237.38
40 years	$7.04	$45.26	$267.86	$1,469.77
50 years	$11.47	$117.39	$1,083.66	$9,100.44

Source: LionGuard Capital

In the light of the illustration above, we want to remind everyone of a quote by great Charlie Munger: *“The first rule of compounding: Never interrupt it unnecessarily.”*

Market Commentary

The third quarter of 2024 saw significant gains across global markets, driven by falling interest rates and a long-awaited sector rotation. In the U.S., the Federal Reserve’s historic reduction of interest rates helped propel equities to record highs, with the S&P 500 gaining 6.1% for the quarter. Notably, investors rotated out of mega-cap technology stocks and into value and small-cap stocks. This shift was a welcome sign of broader market participation, as more than 60% of S&P 500 components outperformed the index. Meanwhile, bonds also rallied, with the Morningstar US Core Bond Index gaining more than 5.1% as yields fell. This positive sentiment was underpinned by the Fed’s easing cycle, which restored confidence in both the stock and bond markets.

In Canada, the TSX Composite Index had its best quarter in four years, as the Bank of Canada cut interest rates three times since June. The TSX ended the quarter just shy of a record high. The combination of falling interest rates and rising commodity prices provided a strong tailwind for the Canadian equity market, despite some weakness in metal miners.

Across both U.S. and Canadian markets, the broadening of the rally from tech into more rate-sensitive sectors such as utilities, financials, and real estate was a key theme. The Federal Reserve's and Bank of Canada's dovish stance helped to normalize the yield curve, benefiting dividend-paying stocks and small caps, which had been struggling under the weight of higher borrowing costs. Bonds continued to perform well as yields dropped. The third quarter also saw significant rotation within sectors, as energy prices fell, real estate investment trusts (REITs) surged, and utilities benefited from falling rates and expectations of higher electricity demand from AI-driven data centers.

The rotation out of technology stocks reflected broader concerns about overvaluation, particularly in sectors like artificial intelligence (AI), which had driven much of the rally earlier in the year. Despite this, large cap technology stocks remain up significantly for the year, though they faced headwinds in Q3.

Looking ahead, optimism remains for both U.S. and Canadian markets as falling interest rates, solid corporate earnings, and broad sector participation provide a supportive environment. However, risks remain, including the potential for volatility in tech stocks, geopolitical tensions, and arguably elevated valuations in some sectors. As the Fed and Bank of Canada continue their rate-cutting cycles, investors will be watching for signs of sustained economic strength and continued earnings growth to justify the market's multiples.

Investment Operations

During the quarter, some of our largest contributors included **Kinsale Capital (KNSL), Globant (GLOB)**, and **IES Holdings (IESC).** On the opposite side, our detractors included **Lumine Group (LMN)** and **Badger Infrastructure (BDGI).**

- **Kinsale Capital (KNSL)** is a pure-play insurer in the Excess & Surplus (E&S) market, offering specialized coverage for high-risk, hard-to-place policies across the U.S. Key markets include California, Florida, and Texas, where Kinsale excels at providing small policy limits with higher premiums in underserved areas. By maintaining in-house underwriting rather than delegating to third parties, Kinsale enriches its proprietary dataset, which enhances the expertise of its underwriters and allows the company to expand its product lines. This focus on niche markets, where competition is minimal, enables Kinsale to command higher pricing and dominate segments where other insurers hesitate to participate.

  A key driver of Kinsale's success is its outstanding financial performance, particularly its industry-leading combined ratio of around 75%, which reflects disciplined risk management and operational efficiency. Kinsale's gross written premiums (GPW) have grown at a compounded annual growth rate (CAGR) of 29% from 2014 to 2023, significantly outpacing the broader E&S market. This growth is driven by Kinsale's fast quoting process, proprietary technology, and data-rich underwriting approach. These strengths create a virtuous cycle, where the company's ever-growing dataset allows for better risk assessment, continuous product innovation, and further expansion into new lines of business, all while maintaining profitability well above industry averages.

Kinsale's remarkable growth and success can largely be attributed to the leadership of its founder and CEO, Michael Kehoe. With over three decades of experience in the insurance industry, Kehoe has instilled a culture of discipline, innovation, and accountability within the company. His focus on in-house underwriting, data-driven decision-making, and operational efficiency has positioned Kinsale as a leader in the E&S space. Kehoe's leadership style, which emphasizes rewarding high performance and making tough decisions, has been crucial to Kinsale's ability to maintain its competitive edge and deliver superior financial results. Under his guidance, Kinsale continues to thrive, making it a compelling investment opportunity for many years to come.

Exhibit 3: Kinsale Capital 5-Year Chart

Sources: Bloomberg, LionGuard Capital

- **Globant (GLOB)** – Globant is a global leader in IT services, specializing in digital transformation, software development, and AI-driven innovation. Founded in Argentina in 2003, the company has grown to over 28,900 employees across 33 countries, operating through a unique "Agile Pod" model. This structure allows Globant to deliver highly customized solutions in emerging technologies such as AI, cloud computing, and digital experiences. Serving industries like media, entertainment, finance, and healthcare, Globant partners with top-tier clients such as Disney, Google, and Electronic Arts, helping them reinvent their operations and accelerate growth in an increasingly digital landscape.

The investment thesis for Globant is supported by its position in the fast-growing IT services market, expected to expand at a 9% compound annual growth rate (CAGR) through 2027. Globant is capitalizing on the demand for AI-driven solutions, already generating over $100 million in AI-related revenue in 2023. Its diversified service offering across industries, combined with strong client relationships—evidenced by a high retention rate and a growing number of clients generating more than $1 million in annual revenue—gives it a competitive edge.

A key driver of Globant's success is its strong leadership under CEO Martín Migoya, one of the company's co-founders. Migoya's vision of blending innovation, technology, and design has shaped the company's global strategy, which emphasizes sustainable growth through innovation and strategic acquisitions. His leadership has fostered a culture of autonomy and creativity within Globant, encouraging teams to explore cutting-edge solutions and deliver exceptional results for clients. This approach has been instrumental in securing large-scale projects and expanding Globant's footprint across the world, making it a standout player in the IT services industry.

Globant's robust financial performance further solidifies its investment appeal. With $2.2 billion in revenue as of Q1 2024 and a consistent record of high margins, the company continues to deliver strong returns for investors. Its focus on expanding AI capabilities, combined with a disciplined approach to scaling operations globally, positions Globant for continued growth. As demand for digital transformation and AI services accelerates, Globant's ability to innovate at scale and deepen client relationships will only further different their offerings.

Exhibit 4: Globant 5-Year Chart

Sources: Bloomberg, LionGuard Capital

- **IES Holdings (IESC)** – We discussed IESC at length in our prior quarterly report, which we encourage our readers to look at.

Exhibit 5: IES Holdings 5-Year Chart

Sources: Bloomberg, LionGuard Capital

- **Lumine (LMN)** - We have extensively discussed our views on Lumine, one of Canada's most exciting compounders and a spin-off from Constellation Software, in prior quarterly reports. We continue to believe that Lumine's vast addressable market, their capability to deploy capital at returns exceeding 25%, and the highly favorable capital deployment environment (with significant accretive capital deployments anticipated potentially in very short order) are not reflected in the stock price.

- **Badger Infrastructure (BDGI)** – Given the level of mispricing, vis-à-vis its intrinsic value, in our opinion Badger is a prime takeout candidate at these levels, likely attracting interest from strategic buyers including Clean Harbors (which tried to buy the company in the past and which coincidentally just increased their Canadian subsidiaries' credit facilities) and numerous other industry players.

  We also believe that the company's board of directors might have to announce a review of strategic alternatives.

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Focus on Compounding

In today's fast-paced markets, where headlines and short-term volatility can easily sway sentiment, we are reminded that the most significant long-term gains are often achieved not by reacting, but by remaining steadfast in our approach. As stewards of your capital, we believe the greatest opportunities for outsized returns lie in businesses whose value compounds over time, particularly when these opportunities arise from unique mispricings within our circle of competence.

We are excited about what the future holds and look forward to sharing our ongoing progress with you.

Sincerely,

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