



LIONRIDGE

QUARTERLY REPORT

winter | 2019

The Tortoise, The Hare, and The Ostrich

Hardev Bains, LLB, MBA, CFA
President & Portfolio Manager

I've previously used the old parable of the Tortoise and the Hare as a metaphor for investing. The Hare is analogous to the kind of investor who is trying to get rich quick, taking a bold and risky approach focused on generating short-term results. I'm much more like the Tortoise, plodding along slow and steady but ultimately winning the race. The last quarter of 2018 saw the drawbacks of being a hare, but also brought to light the failings of a third kind of investor that I call the Ostrich.

The Ostrich is someone who blindly puts their money into the markets with an overly-diversified approach based on the misguided premise that "markets always go up". It is true that over time most major stock indices have shown positive returns, but we believe there is a far better way to grow your wealth - with less risk.

As you know, our approach involves doing fundamental research to focus on a select number of companies that are expected to generate wealth for their shareholders. Along with attractive inherent levels of profitability, these companies have defensible competitive positions and strong financial positions. We only buy these companies if we believe that the price is advantageous. The combination of these factors lends themselves to strong long-term returns

and lower risk as compared to the broader equity markets.

How have we done? Since inception**, Lionridge's Total Equity Portfolio has beat its benchmark* while demonstrating lower downside volatility. The last quarter of 2018 saw a lot of headline volatility with a general reduction in stock market values around the world. Whereas our benchmark was down 9.2% in the quarter, our Total Equity Portfolio was down only 1% in that period. We also managed to achieve a positive return for the full year in 2018, as compared to a negative return for our benchmark.

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Along with the resiliency of the stocks we own, our strong relative performance was also helped by our high cash position. Although our cash position has fallen from a high of 45% last July, it's still close to 35%. We will remain patient

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with this cash and wait for the markets to present the right kind of opportunities that meet our criteria. Being patient and disciplined is crucial to how we grow your money and how we protect your money. These two objectives are of equal importance to Lionridge. That will never change, the Tortoise plods along. ■

At Your Service,

Hardev Bains, LLB, MBA, CFA
President and Portfolio Manager

* Benchmark from November 30, 2017: 40% S&P/TSX Total Return; 60% MSCI World (Gross in CAD\$). Benchmark from inception to November 30, 2017: 45% S&P/TSX Total Return; 35% S&P 500 Total Return (CAD\$); 20% MSCI EAFE (CAD\$).

** Inception date: March 31, 2011.

The Composite consists of all fully discretionary accounts managed by Lionridge Capital Management Inc., according to the investment objective of the Lionridge Total Equity Portfolio. The objective of the Lionridge Total Equity Portfolio is to maximize long-term returns while minimizing long-term risk by investing in a concentrated portfolio of undervalued securities. The manager seeks to invest in securities only at prices offering a margin of safety, with a view to achieving the dual objectives of outstanding returns along with protection of capital. The strategy has a global focus and the manager has discretion over the geographic allocation of assets. Return figures are presented in Canadian dollars, are gross of management and custody fees but are net of all trading expenses, and include cash holdings. There is no minimum portfolio value required for inclusion.

Lionridge utilizes a combination of broad market indices such as the S&P/TSX Composite Total Return index and the MSCI World index (Gross in CAD\$) as the blended benchmark for comparison purposes. The blended benchmark is historically a general reflection of the nature of the securities held in the Lionridge Total Equity Portfolio Composite. The indices are unmanaged and do not incur management fees, transaction costs or other expenses associated with managed accounts.

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