LIONRIDGE
QUARTERLY REPORT
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Value adds Value

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Global equity markets have been volatile and generally weakening during the first quarter of this year, and this continues since the end of the quarter. Along with inflation and signs of more restrictive central bank policies, the war in Ukraine has precipitated much of this volatility. For reasons unrelated to financial markets, we hope that situation resolves itself sooner than later.

Regardless of the headlines, however, we view the markets as facing headwinds simply by virtue of rich valuations following an extended bull market that continued to strongly charge along in 2021. As I've stressed before, the laws of financial gravity are not always apparent but are always applicable. The more stretched stock valuations become, the harder it is for the party to keep its momentum. We continue to hold a fair amount of cash, although the level of cash in our equity portfolios has fallen gradually as the occasional opportunity has presented itself.

One such opportunity that we found in the first quarter was Meta Platforms Inc., the new name of the company that operates Facebook. Although a highly profitable and fast-growing company for years, Facebook had been very richly valued and fell squarely in the category of what I call "glamour stocks" - i.e. companies with which the markets are so enamored that the price of their stocks are pushed to levels of valuation that are difficult to justify on an economic basis. Every now and then the shine comes off a glamour stock and the price can weaken significantly. In Meta's case, the company recently gave guidance on earnings that indicated that its growth is expected to slow. Although this is a highly profitable company with attractive ongoing growth prospects, the market punished it mercilessly.

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We dug in deep and analyzed different scenarios of growth and profitability going forward and decided that the reduced stock price provided a great entry point to invest in this company. We don't know when the markets will begin to stop penalizing Meta's stock and we don't care, because we focus on the underlying dynamics of the company with the confidence that its strengths and growth in intrinsic value will eventually be recognized by the market. As long as Meta continues to compound wealth for its owners (i.e. you), and the stock price remains reasonable in relation to our estimates of intrinsic value, we will be happy to hold it.

March 31 of this year marked 11 years since the inception*** of our Total Equity Portfolio, and analysis of our performance demonstrates the advantage of Lionridge's disciplined value approach. Since inception this portfolio has achieved average annual returns of 10%**. Simple returns don't tell the entire story however. Our fundamental value approach to investing in stocks is designed to mitigate much of the risk inherent in the equity markets that we consider to be avoidable. Our aim is to reduce those risks by being choosy about the companies we invest in terms of their internal attributes and their market valuations. Being patient and holding meaningful amounts of cash at times is also part of these risk management efforts. As a result we've demonstrated lower downside volatility in periods of market weakness, but we've recently gone deeper into our analysis of risk-adjusted returns. The Sharpe ratio is used in the investment industry to assess the value added by an investment approach, as compared to investing in risk-free instruments and adjusted for volatility. In theory, a positive Sharpe ratio is indicative of value being added. Anything higher than 1.0 is considered to be quite good on an absolute basis. On a relative basis, it's also useful to compare a manager's Sharpe ratio as to that of their benchmark. I'm pleased to report that since the inception of the Total Equity Portfolio, it has achieved a Sharpe ratio of 1.38****, which compares very well to its benchmark's* Sharpe ratio of 1.03. So what we do works, and that's why we do it.

At Your Service,

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President and Portfolio Manager

* Total Equity Benchmark from June 1, 2021: 35% S&P/TSX Total Return; 65% MSCI World (Gross CAD$). Benchmark from December 1, 2017 to May 31, 2021: 40% S&P/TSX Total Return; 60% MSCI World (Gross in CAD$). Benchmark from inception to November 30, 2017: 45% S&P/TSX Total Return; 35% S&P 500 Total Return (CAD$); 20% MSCI EAFE (CAD$).
** Average Annualized Returns
*** Inception date; March 31, 2011
**** Sharpe ratio is calculated as the composite return for the portfolio less the risk free rate (average rate for 3-month Canada t-bills), divided by the standard deviation of the portfolio's composite returns.

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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