

Lionridge Capital Management Inc.

Presentation to
Ivey Business School
Value Investing Class

March 9, 2021



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Fundamental Value Approach

- Investing in companies, not markets.
- Buying the right companies at the right prices (requiring a margin of safety).
- Maintaining a long-term focus.
- Investing, not speculating.

Lionridge's approach to investing in equities:

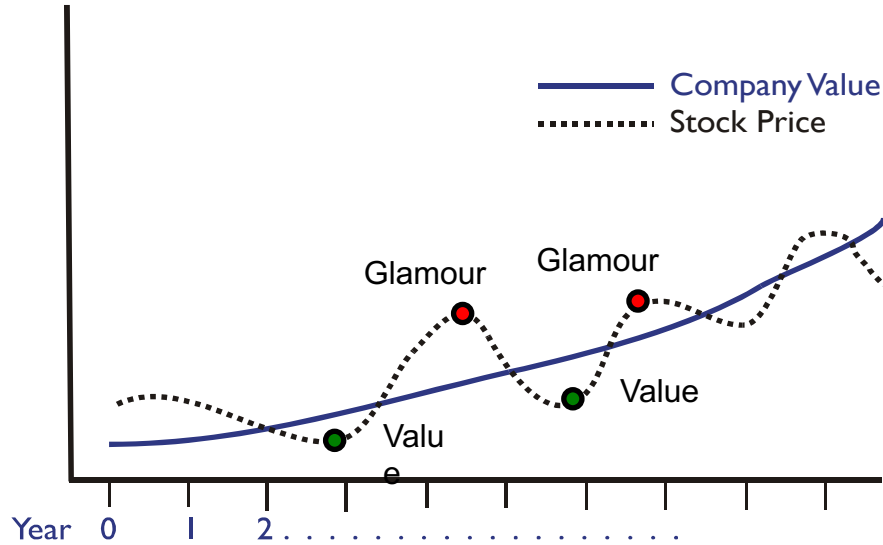
Screening Potential Candidates for Portfolio Inclusion

REJECT	Over-priced stocks
REJECT	Companies with too much debt
REJECT	Badly managed / poor business prospects
REJECT	Unclear cash flows / poor profitability
<i>SELECT</i>	<i>Strong companies with favourable prospects, available at advantageous prices</i>

Valuation

- Theoretically - DCF
 - Going concern, earnings-based
- Art plus science
 - Not strictly a mechanical/quantitative process
- Goal is Accuracy, not Precision
 - Conservative assumptions of cash flow generation
 - Conservative discount rate – drives return expectations
 - Is current price reasonably within range of conservative scenarios?
 - Is downside risk low?
 - Is upside potential meaningful?

Value vs Glamour - Margin of Safety is Paramount

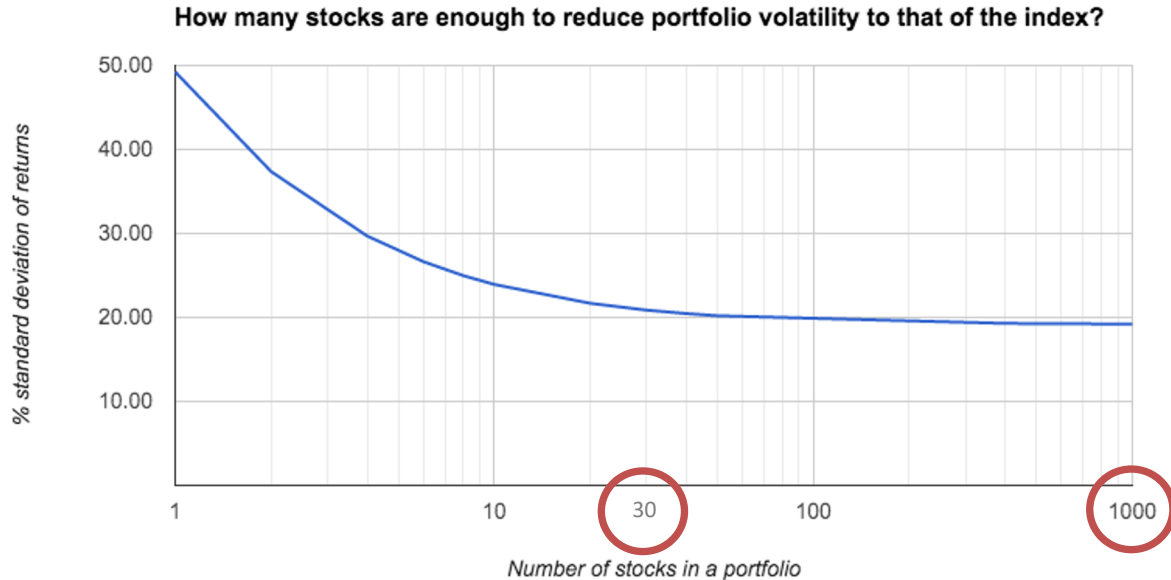


Avoid Danger and Profit from Irrationality

Portfolio Concentration

Limits of Diversification

Need for diversification is commonly over-emphasized by the Investment Industry:



Source: Elton and Gruber; www.stockopedia.com

A Journey - Theory vs. Reality

- Market Theory vs. Real World
- Long Term – Markets fairly efficient
- Short Term – Not efficient
- Why? – Human psychology

The Constancy of Irrationality

“ I can calculate the movement of stars, but not the madness of men”

- *Sir Isaac Newton*

The Great Motivators

- FEAR
 - Fear of losing
 - Fear of missing out/falling behind
- GREED
 - Looking for fast returns
 - Vulnerability to glamour stocks

Short Term Focus

- Recency bias
- Comparing against short term benchmarks
- Chasing returns... example:

GGM Focus Fund November, 2009	
10-year return	18%
Average fund investor return	(-11%)

Other Psychological Factors

Action Bias

Story Effect

Herd Mentality



Portfolio Management Industry Issues

- Too much focus on business risk vs. client risk
- Subject to short term pressures
- Emphasis on short term results overrides effective risk management
- Over-diversification
- Need for action/self-justification

Definition of Risk

- Permanent loss of capital vs short term volatility
- Investor must have appropriate time horizon, or permanent losses could be forced

Advice for Fledgling Investors

- Proper Mindset is Crucial
 - Focus on Process vs Results
 - Cross-train your Brain
 - Monitor and Manage your Emotions

Example - The TJX Companies, Inc.

- Unique business model in the retail space
 - Wide moat
 - Less vulnerable to incursion of online shopping
 - Historically expensive
- Stock oversold in Q1/2020 Covid sell-off
 - Valuation conducted based on conservative scenarios, including Covid closures
 - Stress testing – can they survive?
- Bought at approx. \$40, sold 2 months later at approx. \$53
 - Good buy decision
 - Stocks has since run-up significantly past \$53 – was sell decision good or bad?

Thank You



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