

Sionna Diversified Income Fund

Fund Commentary

The S&P/TSX Composite Index was up 4.5% this quarter on a total return basis. This is the fourth consecutive quarter that the Composite had positive total returns. Year-to-date, the Composite generated a total return of 21.1% making the Canadian market the second-best performer across all major stock markets.

Similar to last quarter, the positive performance of the Composite was primarily driven by financials and energy. The banks drove much of the positive contribution within the financials sector as performance was strong and loan losses remain below historical averages. The energy sector experienced a positive quarter as West Texas Intermediate (WTI), the benchmark for North American light crude oil, increased 11.4% to close at US\$54 per barrel. The materials sector was the only significant negative contributor, mainly driven by weakness in the gold sub-sector as the price of the commodity fell.

During the quarter, the Sionna Diversified Income Fund outperformed its blended benchmark (75% S&P/TSX Composite Index and 25% Barclays Capital Intermediate Credit Index (Hedged)).

Positive Contributors

The Fund's position in PrairieSky Royalty (PrairieSky) positively contributed to performance. The company is the largest independent owner of freehold land in Canada and earns fees by leasing the rights to produce oil and gas on its lands to energy companies. PrairieSky's land position provides a strong competitive advantage and the royalty business is extremely attractive because the company has none of the capital or operating expenses of a producer. The company has been able to prudently grow throughout the energy downturn; adding new land positions and royalty streams, while maintaining a strong financial position.

Mullen Group also contributed positively to performance this quarter. The company is a diversified collection of businesses in the oilfield services and trucking industries. Many of its businesses have been weak amidst a low oil price environment, but the company has managed the tough environment well. With the recent recovery in the price of oil, the outlook for the company has improved along with its stock price. Sionna continues to believe that

Mullen Group is a well-managed business, which should emerge from the downturn a stronger player and be in a position to capitalize on opportunities that may emerge.

The Fund's position in Canadian Western Bank was a positive contributor to the Fund's performance. Canadian Western Bank is a traditional bank focused on commercial lending in Western Canada. It has a history of prudent lending, maintaining a low cost structure, a steadily growing loan book and having lower loan losses than its peers. Almost 40% of Canadian Western Bank's business is in Alberta, which has led to a volatile stock price amidst fears that economic weakness in Alberta could lead to higher loan losses. Despite its geographic exposure, Canadian Western Bank continues to perform well and grow outside of Alberta, which has benefited the stock. The improved oil price outlook also helped the stock's performance over the quarter.

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Performance Detractors

Boardwalk REIT was a detractor from performance this quarter. While Sionna believes that the company is taking the right steps to manage the current downturn in Alberta, Boardwalk has had to reduce rents in order to maintain occupancy levels in its apartment buildings. Sionna agrees with this strategy, although it has put short-term pressure on financial results. Boardwalk remains a company with great assets, a strong management team and a solid balance sheet.

This quarter, the Fund's lack of exposure to Manulife Financial detracted from relative performance. The company benefited from the market expectation of rising interest rates. However, Sionna did not own it as its dividend yield was insufficient and did not meet its investment criteria. Sionna continues to monitor the name and look for a more attractive entry point.

Select Buy & Sell Activity

The Fund initiated a position in CI Financial Corp (CI) during the quarter. CI is one of the largest mutual fund companies in Canada, with an excellent operating history. The chairman of the board has a meaningful stake in the company and management is shareholder friendly –

consistently paying out dividends for more than 20 years. With recent weakness in mutual fund sales and regulatory changes putting pressure on fees across the industry, the stock price declined and Sionna had an opportunity to add this company to the Fund at an attractive valuation.

Current Positioning

It would be shocking if 2017 provides more excitement than 2016, right? Sionna is not so sure. Every year seems to be the “year of the unexpected” so Sionna is confident that future years will have just as many surprises as the past. Ironically, surprises in the future shouldn't be all that surprising. Financial markets have always ebbed and flowed as one unexpected historical event unfolded after another. Yet, equities grow reliably over the long term. And that's the point. If you look at any financial market chart up close with your nose touching the paper, the trajectory you see will be choppy. If you pull back and widen your view, the trajectory you see will actually be an upward trend.

In his annual letter to Berkshire Hathaway shareholders in 1994, Warren Buffett called political and economic forecasts “an expensive distraction.” Sionna believes that it is wise to be aware of, but not be fixated on, macroeconomic events. Come what may in 2017 and

beyond, Sionna will continue to invest with a disciplined approach; that is, investing in companies at attractive prices compared to their intrinsic value. This approach should protect capital and compound wealth over the long term regardless of the surprises that are certain to transpire.

About Sionna

Founded in 2002, Sionna is an independent, value investment firm with over 80 years of experience shared among its portfolio managers. Sionna believes that value investing is a craft. It takes discipline and patience and it is the foundation on which Sionna has grown. As an independent firm, Sionna runs its business with clients' best interests in mind and takes a long-term view with focus only on companies that it believes will help compound its clients' capital.

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Contribution Analysis

LAST QUARTER

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Energy Equip. & Services	1.44	Banks	-0.56
Oil, Gas & Consumable Fuels	0.54	Insurance	-0.34
Trading Companies & Dist.	0.44	Software	-0.17
Media	0.34	Chemicals	-0.09
Capital Markets	0.33	Indep. Pwr. Prod. & Energy Trdrs.	-0.02

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Prairiesky Royalty Ltd.	0.99	Toronto Dominion Bank	-0.21
Mullen Group Ltd.	0.74	Boardwalk REIT	-0.18
Canadian Western Bank	0.64	Computer Modelling Group Ltd.	-0.16
Laurentian Bank of Canada	0.52	Pulse Seismic Inc.	-0.07
Finning International Inc.	0.47	Brookfield Infrastructure PA	-0.04

LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Trading Companies & Dist.	3.71	Metals & Mining	-4.44
Pharmaceuticals	2.85	Oil, Gas & Consumable Fuels	-3.04
Energy Equip. & Services	2.35	Banks	-1.83
Hotels, Restaurants & Leisure	2.24	Road & Rail	-0.84
Transportation Infrastructure	1.91	Diversified Telecom. Services	-0.42

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Whistler Blackcomb Holdings	2.24	Toronto Dominion Bank	-0.38
Prairiesky Royalty Ltd.	2.12	AutoCanada Inc.	-0.17
Brookfield Infrastructure PA	1.92	Computer Modelling Group Ltd.	-0.13
Westshore Terminals	1.91	Corby Spirit & Wine Limited	-0.05
Russel Metals Inc.	1.89	Canadian Oil Sands Ltd.	-0.04

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