

Sionna Canadian Small Cap Equity Fund

Fund Commentary

During the quarter, the Sionna Canadian Small Cap Equity Fund underperformed its benchmark, the BMO Small Cap Index.

Positive Contributors

The Fund's position in BMTC Group Inc. contributed positively to performance. BMTC Group is a family-run holding company that owns two Quebec-based retailing chains: Ameublements Tanguay in the Quebec City area and Brault & Martineau elsewhere in Quebec. BMTC Group is Quebec's largest specialty retailer selling household furniture, mattresses, appliances and home electronics. The company is a stellar retailer with high returns on equity, a leading market position, a strong management team and sound capital allocation strategies. Over the last few quarters, consumer spending in Quebec has slowly started to recover, which has been reflected in BMTC's store traffic. Sionna expects the recovery to continue, but they believe that it will likely be a long and winding road.

Wajax Corp. was a positive contributor this quarter. Operating margins were stronger than expected as end-markets are improving and management continues to

implement cost-cutting tactics. Sionna believes that the business has attractive economics, including high returns on equity, low capital intensity, strong cash flow and a recurring after-market revenue stream that covers most of the company's fixed costs.

The Fund's position in Pulse Seismic Inc. contributed positively to performance this quarter. Pulse Seismic owns a library of seismic data, which it sells to oil and gas companies. The data is very important to these resource companies since it enables them to identify the most attractive areas to drill new wells. Pulse Seismic has seen more demand for its data library, which positively impacted the stock and contributed to performance this quarter.

Performance Detractors

Sionna's lack of exposure to Canopy Growth negatively contributed to performance. Canopy Growth is a diversified cannabis company. As it is a company in a developing industry, Sionna is not completely comfortable with the business model. They recognize there is a lot of fervour in the industry at the moment, and will continue to monitor this space as it develops.

Winpak detracted from performance this quarter. The market was concerned with rising raw material costs and the strengthening Canadian dollar. The company manufactures high-quality packaging materials for the food and health-care markets, and generates stable growth in free cash flow. The management team has reinvested this capital wisely to grow the business, while still paying a significant dividend.

Sionna's lack of exposure to Aphria negatively contributed to performance this quarter. Aphria is a Health Canada licensed producer of medical cannabis products. As it is a company in a developing industry, Sionna is not completely comfortable with the business model. Sionna will continue to learn about this space as it develops.

Select Buy & Sell Activity

Cara Operations (Cara) was added to the Fund this quarter. Cara is predominantly a restaurant franchisor that operates brands such as Harvey's and Swiss Chalet. The recent downturn in Western Canada negatively impacted the business, since more than 20% of its restaurants are located in that region. In addition, market sentiment has

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been negative given the expected increase of the minimum wage in Ontario and Alberta. That said, the majority of Cara's restaurants are franchised, which is an attractive business model that is asset-light, cash-rich and relatively stable given recurring royalty streams from franchisees. Sionna also respects Cara's management team, which has a strong record of cost control. The stock was trading below their estimate of intrinsic value, so they took the opportunity to add the name to the portfolio.

Interfor Corp. was eliminated from the Fund this quarter. Interfor is one of the largest lumber producers in the world. The company recently experienced strong performance due to an increase in lumber prices. As a result, the stock price traded above Sionna's estimate of intrinsic value and they exited the name.

Current Positioning

In Canada, 2017 was another eventful year. The housing market finally took a breather after the Ontario government introduced measures to cool the imbalances. Mortgage lender Home Capital Group experienced missteps and a fall in value that kept real estate concerns at the forefront. The price of oil erased some of the previous year's gains to dip to the low \$40s before closing the year stronger than where it started.

In the U.S., the Federal Reserve raised the benchmark interest rate three times this year – notable, considering rates were increased only five times in the past decade. Consumer confidence continued to trend upwards, while unemployment continued to trend downwards. The Republicans passed the first major tax bill in 30 years that will lower the corporate tax rate from 35% to 21%. This change was what the market hoped for, but seemed to be reflected in equity prices already and unlikely to create further gains.

In more niche corners of the market, the combined market value for crypto-currencies skyrocketed from just under US\$18 billion in January to almost half a trillion dollars by mid-December. If you haven't heard, cannabis stocks are getting a lot of attention, although it's unclear which ones will be winners and which ones will eventually go up in smoke.

The only "sure thing" is that 2018 and beyond will also be eventful. While the market focuses on the "sure things," Sionna will instead focus on applying their proven investment process: bottom-up analysis, buying stocks below their estimate of intrinsic value and properly diversifying the portfolio. This should protect and grow

capital over the long term even as macroeconomic events unfold in the backdrop.

Going with the consensus "sure thing" may appear easier. Sionna prefers to think deeply about where the crowd may be wrong. Thinking like a contrarian is a hallmark of their investment approach and has yielded many investment opportunities over the years. It may be true that great minds think alike. We just resonate more with a saying from *The Economist*, "Great minds like a think."

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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on the

BRIDGEHOUSE
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Sionna Canadian Small Cap Equity Fund

Contribution Analysis (relative to benchmark)

LAST QUARTER

SECTOR			
Top 5 Contributors		Top 5 Detractors	
	%		%
Energy	1.13	Health Care	-2.09
Industrials	0.78	Financials	-0.16
Information Technology	0.74	Real Estate	-0.11
Utilities	0.20	-	
Consumer Staples	0.17	-	

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
BMTC Group Inc. Class A	0.39	Canopy Growth Corporation	-1.28
Wajax Corporation	0.38	Winpak Ltd.	-0.73
Pulse Seismic Inc.	0.36	Aphria Inc	-0.63
ELDORADO GOLD CORP	0.34	Medreleaf Corp.	-0.42
Savaria Corp	0.33	Airboss Of America	-0.34

LAST 12 MONTHS

SECTOR			
Top 5 Contributors		Top 5 Detractors	
	%		%
Energy	4.94	Health Care	-2.04
Information Technology	1.41	Financials	-1.99
Industrials	0.43	Materials	-0.63
Utilities	0.06	Real Estate	-0.41
-		Consumer Staples	-0.22

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Pulse Seismic Inc.	1.52	Home Capital Group Inc.	-1.50
Great Canadian Gaming Corporation	0.92	Aimia Inc.	-1.37
Calian Group Ltd.	0.90	ShawCor Ltd.	-1.10
FirstService Corp	0.69	AirBoss of America Corporation	-0.59
Savaria Corporation	0.68	Mullen Group Ltd.	-0.41

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Quarterly Additions/Deletions

Additions	Deletions
Cara Operations Ltd	Interfor Corp.

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