

Sionna Canadian Small Cap Equity Fund

Fund Commentary

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

Positive Contributors

Wajax was a positive contributor this quarter. Management has outlined a strategy for growth and the company 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.

Solium Capital (Solium) positively contributed to performance this quarter. Solium is a software company specializing in solutions for managing employee equity compensation plans. The company's software is able to efficiently manage equity plans across various countries, simplifying the process for its customers. Solium has an attractive business that enjoys strong customer retention, high recurring revenue and generates strong free cash flow.

The Fund's position in Guardian Capital Group also contributed positively to performance. Guardian Capital Group is a financial company that provides investment management and financial advisory services. The company's operating earnings continue to improve and its financial advisory business is now consistently profitable. The company is focused on diversifying its investment capabilities, and is prudently building out new products. Guardian Capital Group is also increasingly focused on returning cash to shareholders and has been buying back shares and increasing its dividend.

Performance Detractors

The Fund's position in Computer Modelling Group (CMG) detracted from performance this quarter. The company develops and sells reservoir simulation software to oil and gas companies; its stock has been negatively impacted as the price of oil continues to trade below its marginal cost of production. As the availability of easy-to-extract oil declines and production from unconventional supply sources increases, demand for CMG's products is expected to rise. The company is a dominant player in a niche

market, with an excellent performance history, high margins, strong cash flow and no debt.

The Fund's position in Dream Unlimited (Dream) also detracted from performance this quarter. Dream is a major developer of various types of real estate, mainly residential, across Canada. The continued economic weakness in Alberta and Saskatchewan has hampered Dream's ability to develop properties there. Elsewhere in Canada, however, the company continues to make progress on its condominium sales and urban expansion. Recently, Dream won the bid to revitalize a historic waterfront property located at Lakeshore Boulevard East in Toronto. Much of these new investments have been overshadowed by the heavily negative sentiment surrounding Western Canada, causing the stock to languish.

Select Buy & Sell Activity

Savaria Corp. was added to the Fund this quarter. Savaria manufactures accessibility products for people with mobility issues; the company's products include stair lifts, small elevators and ramps for minivans. Management has operated the business well and has allocated capital

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effectively – consistent with its large ownership stake in the company. Savaria, which has been rapidly growing, generates high returns and strong cash flows, and has potential for further growth due to the fragmented retail accessibility market.

The Fund sold its position in Amerigo Resources this quarter. The stock performed well largely due to a strong upward move in the price of copper, and traded above Sionna's estimate of intrinsic value.

Sionna sold the Fund's holdings in Celestica, an electronic manufacturing service company. While Sionna has confidence in the management team and progression of the business, it decided to redeploy the capital into other opportunities that offer a better expected return.

The Fund sold the position in Whistler Blackcomb Holdings after Vail Resorts, a competitor to Whistler Blackcomb, offered to purchase the company at a significant premium to market value last quarter. The stock reacted positively to the news, so Sionna took the opportunity to exit the name above its estimate of intrinsic value.

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

SECTOR			
Top 5 Contributors	%	Top 5 Detractors	%
Materials	3.87	Energy	-2.27
Industrials	1.55	Consumer Staples	-0.04
Financials	1.19	Real Estate	-0.03
Consumer Discretionary	0.81		
Information Technology	0.33		

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
Wajax Corp.	1.13	Computer Modelling Group Ltd.	-0.28
Guardian Capital Group Ltd.	0.46	Dream Unlimited	-0.27
Solium Capital Inc	0.45	GMP Capital Inc.	-0.19
Laurentian Bank of Canada	0.35	Hammond Power Solutions Inc.	-0.17
Russel Metals Inc.	0.34	Ensign Energy Services	-0.15

LAST 12 MONTHS

SECTOR			
Top 5 Contributors	%	Top 5 Detractors	%
Information Technology	3.37	Materials	-12.29
Industrials	2.94	Energy	-7.41
Consumer Discretionary	2.20	Consumer Staples	-0.78
Financials	1.41		

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
Westshore Terminals	2.28	Calfrac Well Services Ltd.	-0.71
Calian Group Ltd	2.09	AutoCanada Inc.	-0.41
Whistler Blackcomb Holdings	2.03	McCoy Global Inc	-0.26
Great Canadian Gaming Corp	1.35	Dream Unlimited	-0.20
Guardian Capital Group Ltd.	1.34	West Fraser Timber Co. Ltd.	-0.18

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Quarterly Additions/Deletions

Additions	Deletions
Savaria Corp	Ensign Energy Services
	Whistler Blackcomb Holdings
	Celestica Inc.
	Amerigo Resources Ltd.

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Published January 26, 2017