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

The Fund's position in Dream Unlimited contributed positively to performance. Dream Unlimited is a developer of various types of real estate, mainly residential, across Canada. The company is generating strong sales of its land inventory in Western Canada, while acquiring and developing properties in the East. It has also gradually increased its recurring income stream from high-quality investment properties. Sionna believes the current share price significantly undervalues the company's vast real estate holdings. In the meantime, Dream Unlimited continues to grow in book value.

AirBoss of America contributed positively to performance this quarter. Volumes in the rubber solutions segment grew 15% and gross margins improved due to higher defense-related sales. Capacity utilization continues to remain low and Sionna believes that the opportunity to reposition the business towards higher-margin customers remains intact.

FirstService Corp. also contributed positively to performance this quarter. FirstService was a strong performer this quarter as the stock price followed the impressive results delivered by the company. FirstService is seeing strong performance in both its residential property management business and its brands business (the ownership of different franchises, such as CertaPro Painters and California Closets), which has translated to impressive earnings growth. FirstService continues to be a great example of how strong management can deliver results that exceed market expectations.

Performance Detractors

Sionna's lack of exposure to Pure Industrial Real Estate Trust (PIRET) was a negative contributor to performance. PIRET is a real estate investment trust that owns and operates a diversified portfolio of income-producing industrial properties in multiple markets across Canada and in logistics markets across the United States. In January, Blackstone Property Partners entered into an agreement to acquire PIRET for a 21% premium to PIRET's stock price and 27% premium to its consensus net asset value estimate. As PIRET was trading above its net asset value prior to the acquisition announcement, Sionna did not invest in the name and believes that there are other more attractive opportunities in the real estate sector.

The fund's position in Tucows Inc. contributed negatively to performance this quarter. Tucows provides Internet domain name services globally, mobile services through partnerships with Sprint and T-Mobile and offers fibre Internet services in the United States. The stock weakened over the quarter due to a negative report issued by a short-seller. We reviewed the report in detail and spoke with Tucows' CEO. Sionna came away confident in both the company and management and believe that the negative report's claims were without merit. Tucows generates stable cash flow and is managed by owner-operators who allocate capital well. The company is the largest wholesale domain registrar in the world and there is a long runway for growth in both the mobile and fibre Internet businesses.

Westshore Terminals Investment Corp. (Westshore) also contributed negatively to performance this quarter.

Sionna Canadian Small Cap Equity Fund

Westshore is the largest of three coal terminals on the North American west coast. Westshore was a negative contributor this quarter in response to its largest customer's plan to expand its own coal shipping capacity. Westshore has a long-term contract with this customer that is in effect until 2021. At this point, it is unclear whether this capacity expansion will actually proceed, what the terms of the contract beyond 2021 will be and whether excess capacity, if any, will be purchased by Westshore's other customers. Sionna continues to monitor the situation closely. In the meantime, the company operates unique assets with scarcity value, has a strong financial position with no debt, continues to repurchase shares and is managed by strong operators with a proven track record.

Select Buy & Sell Activity

Photon Control Inc. (Photon) was added to the portfolio this quarter. Photon designs, manufactures and distributes parts that are used in semiconductor manufacturing equipment. Photon's parts are mission critical and its equipment results in a more accurate process for its customers. Customers are willing to pay more for higher quality products, which results in high margins for Photon. The company's entire management team and Board of Directors were replaced during 2016 and 2017 after a governance issue emerged. The issue did not affect the operations of the business, and it presented Sionna with an opportunity to add the company to the portfolio at an attractive price. Sionna is confident in the new management team, and with a healthy balance sheet, we believe that it is well positioned to pursue its growth strategy.

Current Positioning

Sionna doesn't know if many consider financial markets to be cool, but apparently they're susceptible to inversion. Such was the case this quarter when investors reacted to positive economic news as if it was bad. In February, the U.S. added jobs at the fastest pace in a year and a half, surpassing forecasts by a wide margin. Wage growth was strong and the unemployment rate remained at 4.1% – a 17-year low. This is all very good news; and the market reacted negatively.

Ironically, the seemingly good economic news caused the market to worry about inflation. The belief was that a tighter job market will increase wages, leading to higher spending by individuals and companies, eventually translating to inflation. An inflation uptick could prompt the Federal Reserve to increase the pace of interest rate hikes. When the Federal Reserve officials met last December, three rate hikes were forecasted for 2018. Given the positive economic data since, there are rumblings that the interest rate may now increase four times this year. Since asset values are theoretically inversely related to interest rates, markets dipped.

However, inflation in Canada has been low and stable in recent years. Inflation only averaged 1.6% last year, compared to 2.1% in the U.S. Canadian investors may also have been concerned about rising trade tensions this quarter. For example, the U.S. proposed to introduce tariffs on steel and aluminum imports (16% of the imported steel in the U.S. comes from Canada). However, Canada was later exempted from these tariffs.

When markets wobble, Sionna sees opportunities. At the beginning of the quarter, the S&P/TSX's price-to-earnings ratio was close to 17 times, a level that was above the historical average. The ratio is now below 15 times and Sionna is starting to see more opportunities emerge as a result.

High and unpredictable inflation would be bad for the market, but losing sleep over it at this point is premature. First, the average inflation in Canada and the U.S. over the past five years were both below the 2% targeted rate. It was not too long ago that the market was worried about

Sionna Canadian Small Cap Equity Fund

an era of "stagnation" in which growth, inflation and interest rates would stay permanently low. Second, research by JP Morgan and Scotiabank both concluded that increasing interest rates in a low-rate environment is actually correlated with positive equity markets.

Lastly, maintaining low and stable inflation is a key policy goal for central banks. If the economy overheats, central banks have the latitude to raise rates and keep inflation in check.

The market was quick to flip from worrying about stagnation to worrying about inflation. Seemingly positive economic news was interpreted as negative economic news. This is dizzying, and why Sionna is not convinced that anyone can sustainably predict changes in macroeconomic variables, let alone their implications on stocks. Time and time again, Sionna concludes that the best way to protect and grow capital is to "tune out the noise" and "stick to our knitting." This means conducting bottom-up research and investing in solid companies with good management at a discount to Sionna's estimate of intrinsic value – an all-weather strategy that works. Sionna's consistency and independence can make them look contrarian at times.

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 (relative to benchmark)

LAST QUARTER

SECTOR			
Top 5 Contributors	**%**	**Top 5 Detractors**	**%**
Materials	2.72	Financials	-0.70
Energy	1.11	Information Technology	-0.46
Consumer Discretionary	0.93	Industrials	-0.15
Real Estate	0.88	Consumer Staples	-0.08
Health Care	0.80	-	

COMPANY			
Top 5 Contributors	**%**	**Top 5 Detractors**	**%**
DREAM Unlimited Corp. Class A	0.75	Westshore Terminals Investment Corporati	-0.44
AirBoss of America Corporation	0.52	Tucows Inc.	-0.39
FirstService Corp	0.34	ShawCor Ltd.	-0.33
Automation Tooling Systems Inc.	0.26	Pulse Seismic Inc.	-0.32
Cara Operations Ltd	0.21	Westaim Corporation	-0.32

LAST 12 MONTHS

SECTOR			
Top 5 Contributors	**%**	**Top 5 Detractors**	**%**
Energy	3.41	Financials	-2.16
Materials	3.21	Health Care	-1.07
Information Technology	1.44	Consumer Staples	-0.11
Consumer Discretionary	1.42	Industrials	-0.01
Real Estate	0.63	-	

COMPANY			
Top 5 Contributors	**%**	**Top 5 Detractors**	**%**
DREAM Unlimited Corp. Class A	1.30	ShawCor Ltd.	-1.43
Solium Capital Inc.	1.17	Aimia Inc.	-1.33
Great Canadian Gaming Corporation	1.09	Home Capital Group Inc.	-1.15
Pulse Seismic Inc.	1.09	Equitable Group Inc.	-0.76
Calian Group Ltd.	0.96	Computer Modelling Group Ltd.	-0.45

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Quarterly Additions/Deletions

Additions	
Photon Control Inc	

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