

Sionna Canadian Small Cap Equity Fund

Fund Commentary

The S&P/TSX Composite Index was up 3.7% this quarter on a total return basis.

The financials and energy sectors were the main contributors to the Composite's positive performance this quarter. The financials sector benefited from the banks' strong performance as a group. West Texas Intermediate (WTI), the benchmark for North American light crude oil, increased 12.2% to close at US\$52 per barrel – this contributed to the energy sector's positive performance.

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 Great Canadian Gaming Corp. contributed positively to performance this quarter. The company announced that it was selected by Ontario Lottery and Gaming as a successful bidder, along with Brookfield Business Partners and Clairvest, for the coveted GTA bundle as part of the gaming modernization in the province. Sionna believes that this is an incredible opportunity for the

company to work alongside outstanding partners that bring complementary skill sets in the critical area of real estate development. Sionna has always been attracted to a few key elements of Great Canadian Gaming's business, namely its strong barriers to entry, strong free cash flow generation and great capital allocation. Sionna believes that its participation in this venture will further strengthen the business and be a significant contributor to the growth of its intrinsic value.

AutoCanada Inc. was also a positive contributor to performance this quarter. The company is the only publicly traded auto dealership in Canada, and possesses an attractive business model that is anchored by a steady parts and service business. Despite this, the company has faced some difficult times recently due to their high geographic exposure to Western Canada, Alberta in particular. Fortunately, auto sales in Alberta appear to be recovering, which should lead to improved profitability for AutoCanada. The market has realized this, and the stock has recently appreciated.

The Fund's position in Pulse Seismic Inc. also added to performance. 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

The Fund's position in Winpak Ltd. detracted from performance. 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 healthcare 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.

Computer Modelling Group (CMG) was a negative contributor to performance this quarter. CMG develops and sells reservoir simulation software to oil and gas companies. 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.

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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 AirBoss of America was also a negative contributor this quarter. AirBoss of America has been punished over the past year and a half as rubber compounding volumes declined to an all-time low capacity utilization rate of 50%. Management has refocused the business towards higher-margin customers, and despite the current volume levels, profits and margins are now at higher levels.

Select Buy & Sell Activity

The Fund added Richelieu Hardware to the portfolio this quarter. Richelieu Hardware imports, manufactures and distributes specialty hardware products. The CEO of the company, Richard Lord, has led the business for 30 years, owns 7% of the company and has allocated capital well. Richelieu has a history of consistently generating strong returns on invested capital and maintaining high margins. The company has grown both organically and through its acquisition strategy. With a clean balance sheet, Sionna expects these acquisitions to continue as Richelieu consolidates the North American market.

The Fund also added TECSYS INC to the portfolio this quarter. TECSYS is a supplier of supply chain software for the healthcare market and high-volume distributors. The software helps manage the sourcing and distribution of inventory. The company was founded and continues to be led by the Brereton brothers. Combined, they own more than 30% of shares, and have a history of good capital allocation. With strong free cash flow generation, Sionna believes they will continue to create value for shareholders.

During the quarter, Sionna exited their position in West Fraser Timber Ltd (West Fraser). The stock performed well in response to improved lumber prices. While West Fraser continues to be a well-managed, low-cost producer of lumber, much of the optimism about a return to normal levels for lumber prices has been embedded in the stock. Given the company's higher valuation level, Sionna decided to sell the stock and deploy the capital into less-expensive opportunities.

Current Positioning

The market was relatively quiet this quarter as many buyers and sellers of stock were on holiday. Quiet is good, but the type of quiet that lulls you into complacency is not. Just last quarter Sionna talked about investors being skittish. Yet with fewer sensational headlines in recent months, the

market was quieter and less excitable. Sionna doesn't mind this. In the U.S. however, they are noticing some signs of complacency.

For the decade since the financial crisis, investors and commentators have talked ad nauseam about the impending "correction" in the U.S. However, the U.S. market has relentlessly marched upwards causing some investors to relax and increase their tolerance for risk. A couple of headlines recently caught Sionna's eye: "Good Reasons to Dismiss Market Fears, For Now" by the former CEO and Co-CIO of the giant bond manager PIMCO, and "Pressured Pensions Target Riskier Assets" in the Wall Street Journal.

When the market is complacent about risk management, Sionna's guard is up and their not alone. The well-respected investor Howard Marks of Oaktree Capital reacts the same way. In his most recent letter to clients, he lamented that the market is once again exhibiting "pro-risk" behaviour. This is especially worrisome at a time when assets are expensive and prospective returns are low, causing large investors such as pension funds to "reach for return" – a very dangerous game. He cited several observations of this "pro-risk" behavior.

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So what is an investor to do? First, it's important to acknowledge that there is always danger lurking in the background, regardless of where we are in the cycle. Vigilance is as important during troughs as it is during peaks. Second, Sionna are believers that it's almost impossible to time the market; they can't think of any investor who repeatedly profited by doing so. Third, it is important to stay invested; substantially raising cash, unless the circumstances are extraordinary, can act as a considerable drag on long-term results.

It's true that equities appear expensive in the U.S. It's important to note, however, that the low interest rate is driving up asset prices and history doesn't offer guidance to what fair value is in this type of environment. In Canada, the market seems even less extraordinary. The TSX Composite is trading at 17 times trailing earnings, which is only moderately above historical norms.

A quiet market can lull investors into being complacent about risk. Appropriately, the investment team consists of worrywarts, Sionna is vigilant even when (and especially when) the market is quiet. They've written about how they "stick to our knitting" through market gyrations before – this time is no different. They'll continue to consistently

apply their investment process whether the market is quiet or loud

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	%
Consumer Discretionary	1.65	Materials	-0.80
Consumer Staples	0.25	Real Estate	-0.78
Utilities	0.11	Financials	-0.14
Health Care	0.05	Information Technology	-0.11
-		Energy	-0.06

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
Great Canadian Gaming Corp.	0.98	Winpak Ltd.	-0.81
AutoCanada Inc.	0.62	Computer Modelling Group	-0.56
Pulse Seismic Inc.	0.58	Airboss of America	-0.41
Westshore Terminals Investment Corp.	0.37	Boardwalk REIT	-0.40
Hammond Power Solutions Inc.	0.29	Guardian Capital Group Ltd.	-0.36

LAST 12 MONTHS

SECTOR			
Top 5 Contributors	%	Top 5 Detractors	%
Materials	3.58	Financials	-0.88
Energy	1.39	Utilities	-0.39
Industrials	1.05	Real Estate	-0.35
Information Technology	0.83	Consumer Staples	-0.32
Consumer Discretionary	0.55	-	

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
Great Canadian Gaming Corporation	1.04	Home Capital Group Inc.	-1.15
Pulse Seismic Inc.	0.83	Aimia Inc.	-1.14
Wajax Corporation	0.77	ShawCor Ltd.	-0.72
Solium Capital Inc.	0.77	GMP Capital Inc.	-0.44
FirstService Corp	0.62	Equitable Group Inc.	-0.37

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