

Sionna Monthly 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 Monthly Income Fund outperformed its blended benchmark (60% S&P/TSX Composite Index and 40% FTSE TMX Canada Universe Bond Index).

Positive Contributors

The Fund's position in Methanex Corp. contributed positively to performance. The continued increase in global methanol prices caused Methanex Corp.'s stock price to rise and positively contribute to performance. Sionna likes the fundamentals of the business and believes that there is an upside to the company's free cash flow generation with higher long-term methanol prices and the relocation of some of the company's facilities to North America.

The Fund's position in PrairieSky Royalty (PrairieSky) also 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.

The Fund's position in Canadian Western Bank was a positive contributor to 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.

Performance Detractors

The Fund's position in Empire detracted from performance this quarter. Empire continues to struggle following its acquisition of Canada Safeway. In addition to a challenging environment for conventional grocery retailing,

Sionna Monthly Income Fund

the company has faced significant execution issues, which resulted in the departure of the CEO, write-downs and weak results. Sionna has seen similar situations with other grocery retailers in the past, and although it will take time, it believes its issues can be resolved. In the meantime, the stock is trading at a significant discount to Sionna's estimate of its intrinsic value. It's worth noting that the company is controlled by the Sobey family who has a long history of strong financial performance and a focus on long-term value creation. While short-term results will continue to be challenged, Sionna believes there is significant value in the business and the stock presents an attractive opportunity for patient investors.

Fairfax Financial Holdings was a detractor from performance. Prior to this quarter, the company was positioned quite conservatively in its investment portfolio, which it had hedged entirely; the company would therefore tend to underperform in periods when the market was strong. However, over the past month, the company has greatly reduced this conservative positioning, and should now benefit much more from strength in the equity markets.

The Fund's lack of exposure to Royal Bank negatively contributed to performance this quarter. Although the

shares performed well, Sionna continues to prefer other banks that have more attractive risk/reward profiles.

Select Buy & Sell Activity

Brookfield Infrastructure Partners (Brookfield) was added to the Fund this quarter. Brookfield is an owner of high-quality infrastructure assets, including toll roads, ports and a railroad, which generate predictable cash flows. In fact, 85% of its cash flows are either regulated or contractual in nature. The company has demonstrated an ability to opportunistically acquire high-quality assets at attractive prices from distressed sellers. Aside from great assets and a strong management team, the security offers an attractive 3.5% yield.

During the quarter, the Fund initiated a position in CI Financial Corp (CI). The company 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.

Sionna added Restaurant Brands International (Restaurant Brands), the franchisor of the Burger King and Tim Hortons brands, to the Fund over the quarter. Restaurant Brands has an attractive business based on a royalty model, which generates significant cash flow with minimal capital expenditures. The company is majority-owned by 3G Capital who is known for having a laser-like focus on cost controls and an impressive track record of improving brands. 3G Capital is also aligned with shareholders, given it owns almost 50% of the company. Restaurant Brands has high debt levels; however, Sionna is comforted by the management team's commitment to paying it down, and their strong track record of doing so in the past. Given the compelling business model and strong management, Sionna was pleased to add the name to the Fund at a discount to its estimated intrinsic value.

SNC-Lavalin Group Inc. (SNC) was eliminated from the Fund this quarter. When Sionna first purchased SNC shares, the company was facing uncertainty due to ethics transgressions. As a result, Sionna believed that the market mispriced the business and overlooked the significant downside protection inherent in its ownership in the 407 toll road in Ontario. Since then, the company has worked hard to improve its compliance function and has won numerous new projects, helping put to rest concerns that the company would be permanently

Sionna Monthly Income Fund

impacted by previous ethical issues. As a result, the stock price appreciated to a point where it reached Sionna's estimate of intrinsic value and Sionna decided to deploy the capital into more attractive opportunities.

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.

Sionna Monthly Income Fund

Contribution Analysis

LAST QUARTER

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Oil, Gas & Consumable Fuels	1.44	Banks	-0.83
Chemicals	1.22	Insurance	-0.74
Trading Companies & Dist.	0.41	Food & Staples Retailing	-0.59
Energy Equip. & Services	0.41	Multi-Utilities	-0.12
Diversified Financial Services	0.29	Road & Rail	-0.03

COMPANY

Top 5 Contributors		Top 5 Detractors	
	%		%
Methanex Corp.	1.19	Empire Company Ltd.	-0.64
PrairieSky Royalty Ltd.	1.01	Fairfax Financial Holdings Ltd.	-0.51
Canadian Western Bank	0.62	Manulife Financial Corp.	-0.23
Imperial Oil Ltd.	0.52	Atco Ltd.	-0.12
Finning International Inc.	0.44	Brookfield Asset Management Cl. A	-0.09

LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Trading Companies & Dist.	1.88	Banks	-1.56
Chemicals	1.61	Food & Staples Retailing	-1.35
Multi-Utilities	1.14	Metals & Mining	-0.68
Energy Equip. & Services	0.97	Road & Rail	-0.40
Construction & Engineering	0.96	Hotels, Restaurants & Leisure	-0.12

COMPANY

Top 5 Contributors		Top 5 Detractors	
	%		%
Teck Resources Ltd.	3.10	Royal Bank of Canada	-1.72
PrairieSky Royalty Ltd.	2.42	Empire Company Ltd.	-1.40
Finning International Inc.	1.98	Canadian National Railway	-0.22
Methanex Corp.	1.58	West Fraser Timber Co. Ltd.	-0.15
Canadian Natural Resources Ltd.	1.42	Potash Corp. of Saskatchewan Inc.	-0.12

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