

Sionna Opportunities 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 Opportunities Fund outperformed its blended benchmark (50% S&P 500 Index and 50% S&P/TSX Composite Index).

Positive Contributors

The Fund benefited from owning Suncor Energy (Suncor). The company has performed well despite a difficult environment for the energy markets, and Sionna continues to be impressed with Suncor's capital discipline and focus on free cash flow.

The Wells Fargo warrants positively contributed to performance during the quarter. Since the financial crisis, bank valuations have been pressured amidst a fierce regulatory environment and low interest rates, which negatively impact banks margins. Following the election of Donald Trump as President, banks have benefited for a number of reasons, including expectations of lower taxes, lighter regulation, greater fiscal spending and a rising rate environment. The Federal Reserve's guidance that several interest rate increases are expected has also positively impacted bank valuations. The warrants benefited from these factors, so Sionna took the opportunity to switch from the warrants into the common equity of Wells Fargo, which it believes remains undervalued.

CarMax was another positive contributor to performance this quarter. Sionna believes that the company's scale and experience in purchasing and selling used cars provides it with a sustainable competitive advantage and a long runway for growth.

Performance Detractors

Empire continued to struggle following its acquisition of Canada Safeway and detracted from the Fund's performance during the quarter. In addition to a challenging environment for conventional grocery retailing, 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, Sionna 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

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significant value in the business and the stock presents an attractive opportunity for patient investors.

Diageo Plc (Diageo) was a detractor during the quarter. This weakness can largely be explained by the fact that Diageo operates in a fairly defensive sector that tends to underperform during periods of broader market strength. Furthermore, the company continues to work to improve the profitability of its recently acquired India-based business, United Spirits, which has proven more challenging than the company expected. However, in the long term Sionna believes that this is a company with fantastic brands, great distribution and a good management team.

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

During the quarter, Sionna added Anthem Inc to the Fund. Anthem is the second-largest managed care organization in the U.S. and currently insures close to 40 million people. It is the exclusive licensee of Blue Cross Blue Shield in 14 states, which is considered one of the most valuable brands in healthcare. The stock has recently experienced weakness primarily due to challenges in the new public insurance exchanges in the U.S. Sionna believes that these challenges are short term in nature and see a company that continues to generate strong free cash flow, has a recurring revenue stream and operates in an industry with high barriers to entry. The recent uncertainty surrounding the company provided Sionna with an opportunity to purchase shares at the attractive valuation of 14 times trailing earnings.

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.

Computer Modelling Group (CMG) was added to the Fund 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. The company is a dominant player in a niche market, with an excellent performance history, high margins, strong cash flow and no debt.

Sionna added Empire to the Fund this quarter as the grocery retailer continues to struggle after the acquisition of Canada Safeway. In addition to a challenging environment for conventional grocery retailing, 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 in the past with other grocery retailers, and although it will take time, Sionna believes its issues can be resolved. In the meantime, the stock is trading at a significant discount to 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

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Following the recent U.S. presidential election, the Bank of America and the Wells Fargo & Co. warrants experienced a significant increase in price. Sionna took advantage of this opportunity to sell the warrants and purchase the banks' common equity, which Sionna believes has a better risk/return profile than the warrants themselves.

Sionna sold its position in Granite REIT during the quarter. Although Sionna continues to hold the company in other Sionna strategies, in this concentrated Fund it decided to allocate the capital to other opportunities that it believes offer the potential for a greater expected return.

Home Capital is a leading alternative mortgage lender with a long history of strong results and conservative underwriting practices. While Sionna continues to believe the shares are trading below intrinsic value, it redeployed the capital to other companies that have better risk/return profiles.

Johnson & Johnson has performed well and remains a very high-quality business. However, in this concentrated Fund Sionna decided to allocate the capital to Anthem Inc., a

high-quality business that trades at a more attractive valuation.

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

INDUSTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Diversified Telecom. Services	1.88	Banks	-1.80
Banks	1.74	Food & Staples Retailing	-0.53
Oil, Gas & Consumable Fuels	1.56	Capital Markets	-0.48
Specialty Retail	1.15	Beverages	-0.43
Diversified Financial Services	0.65	Software	-0.26

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
Carmax Inc.	1.07	Empire Company Ltd.	-0.52
Wells Fargo Warrants	1.04	Diageo PLC	-0.46
Iridium Communications Inc.	0.96	DREAM Unlimited	-0.32
ATN International	0.96	Brookfield Asset Management Cl. A	-0.15
PrairieSky Royalty Ltd.	0.88	Computer Modelling Group Ltd.	-0.14

LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Trading Companies & Dist.	2.13	Banks	-3.27
Hotels, Restaurants & Leisure	2.00	Banks	-1.02
Pharmaceuticals	1.98	Food & Staples Retailing	-0.53
Oil, Gas & Consumable Fuels	1.25	Diversified Telecom. Services	-0.42
Textiles, Apparel & Luxury Goods	0.89	Software	-0.37

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
Finning International Inc.	2.19	Wells Fargo Warrants	-0.97
PrairieSky Royalty Ltd.	2.12	Empire Company Ltd.	-0.49
Great Canadian Gaming Corp	2.08	Diageo plc Sponsored ADR	-0.32
Suncor Energy Inc.	1.34	DREAM Unlimited	-0.30
Morguard Corp.	1.16	Howard Hughes Corp.	-0.28

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Quarterly Additions/Deletions

Additions
Empire Company Ltd.
Computer Modelling Group Ltd.
Anthem Inc
Bank of America Corp
Brookfield Infrastructure PA
Wells Fargo & Company

Deletions
Granite Real Estate Inc.
Johnson & Johnson Inc.
Bank of America Corp. Warrants
Wells Fargo Warrants
Home Capital Group Inc.

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