

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

Positive Contributors

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.

CarMax Inc. was also a positive contributor to performance. 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.

AutoCanada Inc. contributed positively to the Fund 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.

Performance Detractors

GGP Inc. was a detractor from performance this quarter. GGP is the owner of 127 retail properties located throughout the U.S., including approximately 100 of the top 500 malls in the country. Recently, there have been concerns that commerce is shifting to the online channel, which could result in continued retailer bankruptcies and poor results for mall owners. Although there will likely be fewer physical malls in the future, Sionna believes that the least attractive malls with the poorest locations and the least compelling tenant mix will be the ones to suffer. These types of properties are the polar opposite of the current GGP portfolio and Sionna believes that there will be a continued demand for retail space in well-located malls. GGP's results continue to reflect this strong demand with occupancy rates of 96%. Sionna believes that the current 30% discount to net asset value reflects an overly pessimistic view of the business' prospects, and that GGP management will take the appropriate actions to close this discount.

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Airboss Of America has contributed negatively to performance 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.

Computer Modelling Group (CMG) also contributed negatively 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. The company is a dominant player in a niche market, with an excellent performance history, high margins, strong cash flow and no debt.

Select Buy & Sell Activity

AMERCO was added to the portfolio this quarter. The company operates U-Haul truck rental and self-storage businesses. U-Haul has strong competitive advantages by way of its wide dealer network and strong brand recognition. As a result, it has the leading number of locations and rental

trucks by a wide margin. This network enables U-Haul to offer customers the best pricing and convenience. The company is diligently building out its network of trucks, dealers and self-storage locations, which will enable it to continue its dominance in this space.

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.

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

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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

INDUSTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Specialty Retail	1.61	Equity Real Estate Investment Trusts (F	-0.58
Hotels Restaurants & Leisure	1.10	Chemicals	-0.56
Beverages	0.81	Banks	-0.42
Insurance	0.39	Software	-0.33
Energy Equipment & Services	0.38	Other	-0.32

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
Great Canadian Gaming Corp.	1.49	GGP Inc	-0.61
CarMax Inc.	0.66	Airboss Of America	-0.38
AutoCanada Inc.	0.62	Computer Modelling Group	-0.28
Fairfax Financial Holdings Ltd.	0.61	Howard Hughes Corp.	-0.27
Ambev SA - ADR	0.56	TWC Enterprises Ltd.	-0.26

LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Oil Gas & Consumable Fuels	2.25	Banks	-1.66
Commercial Banks	1.83	Real Estate Management & Developme	-0.65
Food & Staples Retailing	1.41	Software	-0.52
Diversified Telecommunication Service	1.36	Other	-0.49
Hotels Restaurants & Leisure	1.34	Technology Hardware Storage & Perip	-0.37

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
Great Canadian Gaming Corporation	1.23	GGP, Inc.	-0.65
Wells Fargo & Co Warrants 2010-28.10	1.09	National Oilwell Varco, Inc.	-0.57
Empire Co. Ltd. Class A	1.06	DREAM Unlimited Corp. Class A	-0.55
CarMax, Inc.	1.04	Howard Hughes Corporation	-0.49
Brookfield Infrastructure Partners L.P.	0.97	Tractor Supply Company	-0.43

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Quarterly Additions/Deletions

Additions	Deletions
AMERCO	

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