Sionna Diversified Income Fund

Fund Commentary

The S&P/TSX Composite Index was down 10.1% this quarter on a total return basis.

As uncertainty gripped the market, investors fled the cyclical sectors and sought safety in the historically stable sectors. As such, energy and financials negatively contributed to the S&P/TSX Composite Index, while staples and communication services positively contributed this quarter.

Within the energy sector, oil producers led the decline as West Texas Intermediate (WTI), the benchmark for North American light crude oil, fell 38% this quarter to US$45 per barrel. This was a dramatic fall after WTI trended upwards for the first three quarters of the year, peaking at US$76 in early October. Western Canadian Select (WCS), the benchmark for heavy crude in Western Canada, experienced a more severe decline, at one point dipping to US$13 before closing the year at US$30.

In the financials sector, the banks were the largest detractors. Worries about a slowing economy, the softening housing market and how market uncertainties may impact the banks' capital markets and asset management divisions negatively weighed on stocks.

During the quarter, the Sionna Diversified Income Fund underperformed its blended benchmark (75% S&P/TSX Composite Index and 25% Barclays Capital Intermediate Credit Index (Hedged)).

Positive Contributors

The Fund's lack of exposure to Encana, a North American energy producer, positively contributed to performance. Over the quarter, Encana announced it would be acquiring Newfield Exploration Company (valued at approximately US$5.5 billion) and assume US$2.2 billion of Newfield net debt. This acquisition, in combination with a declining oil price environment, negatively impacted Encana's stock price.

Another positive contributor to performance was Cogeco Communications Inc. (Cogeco). Cogeco is a cable company providing internet, television and telephone services in Ontario, Quebec and the eastern U.S. The company focuses on suburban and rural areas, which tend to have stronger barriers to entry than urban cities. We believe that management has recently been focusing on a reliable strategy that targets U.S. cable companies. We also believe that the stability within cable assets provides downside protection to the portfolio.

In addition, Suncor Energy Inc. (Suncor) positively contributed to performance. Suncor is a large integrated oil and gas company involved in exploration and production, oil sands, and refining and marketing. Our underweight position in the name benefited the portfolio as the stock price weakened in the current oil price environment. The company has a diversified portfolio of assets that continues to produce free cash flow. Suncor has an impressive management team that is focused on the continuous improvement of operations and on maintaining a strong financial position.

Performance Detractors

The Fund's position in Computer Modelling Group (CMG) was a detractor from performance this quarter. CMG develops and sells reservoir simulation software to oil and gas companies. The company detracted from returns as sentiment towards the oil and gas sector, particularly in Canada, was negative this quarter. Both the benchmark

Sionna Diversified Income Fund

price for North American light crude oil and for Western Canadian heavy crude oil fell this quarter. A declining oil price weighed on oil and gas producers, who are CMG's customers. Despite a challenging oil price environment, over the long term, production from unconventional supply sources is forecasted to increase as the availability of easy-to-extract oil declines. As such, the 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.

PrairieSky Royalty (PrairieSky) also negatively contributed to performance. PrairieSky is the largest independent owner of freehold land in Canada and earns fees by leasing rights to produce oil and gas on its lands to energy companies. Production volumes have been weak over the past year, so cash flows have declined, although they remain positive. PrairieSky maintains conservative payout ratios and has been using its excess free cash flow, after covering the 4.5% dividend yield, to buy back shares. The company has no debt, so it is well positioned to withstand more challenging environments. The management team is aligned with shareholders and remains focused on the long term. With the volatility in oil pricing in Alberta and the ongoing pipeline capacity issues, there is some uncertainty about what industry capital spending will be in Western Canada during 2019. As a landholder, PrairieSky is dependent on third-party operators to drill on its land, so the company is exposed to overall activity levels. We continue to think that PrairieSky is a high-quality company with unique assets that will be valuable for many years, and the shares offer an attractive expected return to our estimate of intrinsic value.

Our position in Gluskin Sheff + Associates (Gluskin Sheff) detracted from the Fund's performance. Gluskin Sheff is one of Canada's largest non-bank private wealth managers. The company's stock price was negatively impacted as there were concerns about the net outflows of assets amid equity market volatility. We believe the company has an attractive business model that generates recurring revenues, high margins and strong cash flows. As owner-operators, the management team is aligned with shareholders and has run the business prudently, carrying no debt and consistently paying a dividend.

Select Buy & Sell Activity

The Fund added Pembina Pipeline Corp. (Pembina) to the portfolio this quarter. Pembina is an energy infrastructure company that owns and operates pipelines and other facilities to transport, process and store oil and gas. It is a resilient business with stable assets and strong cash flows, the majority of which is underpinned by guaranteed long-term contracts that have neither volume nor price risk. The company is led by a conservative management team who operates the business with lower leverage and maintains a more conservative payout ratio than its peers. Recently, the pipeline sector has fallen out of favour partially due to rising interest rates. Available at its lowest price-to-free-cash-flow ratio in a decade, Pembina is trading below our estimate of intrinsic value, providing us with the opportunity to add the name to the portfolio.

Pizza Pizza Royalty Corp. (Pizza Pizza) was another addition to the portfolio. Pizza Pizza is a royalty company that generates revenues from the Pizza Pizza and Pizza 73 franchises. The company has a strong position as the dominant player in the Canadian pizzeria market with more than 760 restaurants. Pizza Pizza has limited operating costs and a history of generating strong free cash flow that is paid out to shareholders through a dividend. The balance sheet is strong and the founding family still has a significant stake in the business. Recently, Pizza Pizza has experienced weak same-store sales that pressured the stock. We believe these issues are temporary and exacerbated by the fact that the company is smaller in size and not well understood. This short-term weakness gave us the opportunity to purchase Pizza Pizza at a price-to-free-cash-flow multiple of 10 times and an attractive yield of approximately 10%.

Sionna Diversified Income Fund

Current Positioning

Around the world, investors were concerned about ongoing trade disputes and slowing global growth. It is anticipated that borrowing costs will increase as the Federal Reserve is expected to raise its benchmark interest rate two more times in 2019. Similarly in Europe, monetary tightening is taking place as the European Central Bank announced it will stop its bond-buying program after nearly four years.

In Canada, investors were also worried about rising rates but were more concerned with the energy sector. Over the year, both WTI and WCS prices declined. The differential between WTI and WCS prices, which has historically been in the US$15-25 range, widened to US$50 at one point. The spread narrowed to US$16 at the end of the year. Even still, oil producers signalled their intention to reduce capital spending next year, further hampering growth in the already weakened energy sector.

We are watchful for the next economic downturn but are more interested in the "secular bull" phenomenon; equities have historically risen over the long term no matter the macroeconomic backdrop. Periods of cyclical downturns are therefore opportunities to enhance long-run returns.

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 Diversified Income Fund

Contribution Analysis (relative to benchmark)

LAST QUARTER

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
Oil, Gas & Consumable Fuels	1.36	Capital Markets	-1.39
Banks	1.19	Energy Equip. & Services	-0.89
Road & Rail	0.71	Metals & Mining	-0.70
Pharmaceuticals	0.70	Energy Equip. & Services	-0.64
Chemicals	0.41	Equity Real Estate Inv. Trusts	-0.62

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Suncor Energy Inc.	0.47	Computer Modelling Group Ltd.	-0.89
Royal Bank Of Canada	0.34	PrairieSky Royalty Ltd.	-0.87
Cogeco Communications Inc	0.06	Gluskin Sheff & Associates Inc	-0.70
Toronto-Dominion Bank	0.04	Mullen Group Ltd.	-0.66
Pizza Pizza Royalty Corp	0.02	CI Financial Corp	-0.64

LAST 12 MONTHS

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
Banks	0.77	Capital Markets	-3.29
Metals & Mining	0.63	Energy Equip. & Services	-1.07
Multiline Retail	0.33	Multi-Utilities	-0.69
Equity Real Estate Inv. Trusts	0.27	Independent Power and Renewable Electricity Producers	-0.62
Oil, Gas & Consumable Fuels	0.26	Trading Companies & Dist.	-0.46

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Granite Real Estate Inc.	0.33	PrairieSky Royalty Ltd.	-2.10
Royal Bank Of Canada	0.30	CI Financial Corp	-1.88
Suncor Energy Inc.	0.29	Computer Modelling Group Ltd.	-1.07
Pason Systems Inc.	0.17	Brandes Corporate Focus Bond Fund (H	-0.94
Cogeco Communications Inc	0.08	Gluskin Sheff & Associates Inc	-0.76

Sionna Diversified Income Fund

Quarterly Additions/Deletions

Additions	Deletions
Pizza Pizza Royalty Corp	
Pembina Pipeline Corp.	

Sionna Diversified Income Fund

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