

Sionna Diversified Income Fund

Fund Commentary

The S&P/TSX Composite Index was down 0.6% this quarter on a total return basis.

The two largest detractors from the Index's performance were the materials and energy sectors. The weakness in materials was primarily driven by gold producers, as the price of gold declined over the quarter. With regards to energy, both oil producers and pipelines led the decline as West Texas Intermediate (WTI), the benchmark for North American light crude oil, dipped almost US\$10 before rallying to close the quarter at US\$73 per barrel.

The financials sector was the most significant positive contributor to the Index's performance over the quarter, largely due to the performance of the banks. The industrials sector also positively contributed to the Index's performance, as did the healthcare sector, with cannabis stocks (notably Canopy Growth and Aphria) surging over the quarter.

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

Intact Financial (Intact), the leading property and casualty insurer in Canada, was the top contributor to the portfolio's performance this quarter. The company has been improving its underwriting results after a challenging environment. We continue to believe the company benefits from numerous competitive advantages, such as its scale as well as having a strong management team in place. We believe the company should continue to generate strong and consistent returns with ample opportunity to grow the business.

Boardwalk REIT (Boardwalk) also contributed positively to the portfolio's performance. Boardwalk owns apartment buildings across Canada, with most of its portfolio in the western region. The company's cash flows have been depressed as the recent energy downturn negatively impacted the occupancy rates and rents for Boardwalk's properties. However, conditions are improving and the company's results suggest that the cyclical bottom has passed. The management team is focused on investing internally to improve the quality of its rental properties and to better position its assets.

Our lack of exposure to Enbridge positively contributed to performance. Enbridge is one of the largest energy infrastructure companies in North America with a prominent

footprint in the pipeline business. Over the last few quarters, Enbridge's stock has been weak; management has faced challenges with its capital structure and high debt level especially in an environment where rates have started to increase. While Enbridge has strong assets that have allowed it to generate solid operating cash flow over the long term, we believe that there are other more attractive opportunities in the energy sector.

Performance Detractors

The Fund's position in PrairieSky Royalty (PrairieSky) contributed negatively to performance this quarter. PrairieSky 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 typical oil and gas producer. Production on PrairieSky's lands has been weak; however, the company has been able to prudently grow by adding new land positions and royalty streams, while maintaining a strong financial position.

CI Financial Corp. (CI) also detracted from performance this quarter. CI Financial is one of the largest mutual fund

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companies in Canada. The company has an impressive history of high margins and consistent cash flows, as well as a strong balance sheet. Cyclical pressures and the integration of a recent acquisition have led to net redemptions. CI also recently cut its dividend by 50% and reallocated capital to share repurchases. Since the shares are attractively valued, we believe that this change in capital allocation policy is shrewd and will benefit shareholders in the long run.

Computer Modelling Group (CMG) was another detractor from performance. CMG develops and sells reservoir simulation software to oil and gas companies. The company performed below analyst expectations in the most recent quarter. We continue to be impressed by the resiliency of the business despite a challenging oil environment. And longer term, 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. We believe that CMG will benefit as the oil and gas sector gradually improves.

Select Buy & Sell Activity

The Fund had no activity this quarter.

Current Positioning

Economic uncertainties both at home and abroad weighed on Canada's stock market. At home, Canada continued its ongoing NAFTA negotiations with the U.S., finally reaching a new agreement, USMCA, at the end of the quarter. Abroad, currency crises in Argentina and Turkey (where the central bank increased its benchmark interest rate to 24%) intensified fears of contagion, which negatively impacted emerging market assets.

After outpacing the S&P 500 last quarter on a total return basis, the S&P/TSX trailed during the third quarter of 2018. However, the price-to-earnings multiple for the S&P 500 is currently 20 times, meaningfully above its historical average of 17 times. Here in Canada, the price-to-earnings multiple for the S&P/TSX is at a more reasonable level of around 15 times, which is in line with its historical average. This divergence suggests that there may be more undervalued investment opportunities in Canada, currently. Even still, political and economic uncertainties are abound, reminding us to stay vigilant and focus on investments that are both defensive and attractively valued.

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	%
Metals & Mining	1.43	Capital Markets	-1.15
Insurance	0.58	Banks	-0.55
Equity Real Estate Inv. Trusts	0.43	Road & Rail	-0.55
Multiline Retail	0.19	Energy Equip. & Services	-0.47
Oil, Gas & Consumable Fuels	0.14	Pharmaceuticals	-0.46

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
Intact Financial Corp.	0.43	PrairieSky Royalty Ltd.	-0.50
Boardwalk REIT	0.35	CI Financial Corp	-0.48
Enbridge Inc.	0.33	Computer Modelling Group Ltd.	-0.47
Goldcorp Inc.	0.18	Canadian National Railway	-0.31
Brookfield Infrastructure PA	0.17	Gluskin Sheff & Associates Inc	-0.27

LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Metals & Mining	1.61	Capital Markets	-2.24
Equity Real Estate Inv. Trusts	1.21	Pharmaceuticals	-0.75
Diversified Telecom. Services	0.37	Banks	-0.75
Trading Companies & Dist.	0.32	Road & Rail	-0.67
Electric Utilities	0.19	Oil, Gas & Consumable Fuels	-0.58

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
Boardwalk REIT	1.06	PrairieSky Royalty Ltd.	-1.62
Finning International Inc.	0.34	CI Financial Corp	-1.23
Granite Real Estate Inc.	0.27	Great-West Lifeco Inc.	-0.62
Fairfax Financial Hldgs. Ltd.	0.13	IGM Financial Inc.	-0.50
Restaurant Brands International	0.11	Mullen Group Ltd.	-0.36

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