

Sionna Diversified Income Fund

Fund Commentary

The S&P/TSX Composite Index was up 4.5% this quarter on a total return basis.

While all sectors positively contributed to the Composite's performance this quarter, the financials sector, specifically the banks, had the most notable impact. Earnings continue to surpass expectations and concerns regarding real estate remain unrealized thus far.

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 position in PrairieSky Royalty (PrairieSky) added to performance this quarter.

The Fund's position in Boardwalk REIT added to performance this quarter. Boardwalk owns apartment buildings across Canada, with most of its portfolio in the western region. The energy downturn negatively impacted these assets, leading to lower rents and reduced occupancy levels. Boardwalk's cash flows have been weak, putting

pressure on distribution payout ratios. The company recently made the difficult but necessary decision to cut its dividend. The management team is focused on investing internally to improve the quality of its rental properties and to better position the business for when the operating environment improves. Boardwalk continues to have quality assets and a strong management team that is well aligned with shareholders.

Sionna's lack of exposure to Enbridge positively contributed to performance this quarter. Enbridge is one of the largest energy infrastructure companies in North America with a prominent footprint in the pipeline business. The company experienced a challenging quarter as investors questioned if Enbridge could fund its large capital expenditure plans and maintain its dividend growth in the near term, causing weakness in the company's share price. Recently, Enbridge issued equity and announced a dividend increase, which helped the stock recover some of the losses that occurred earlier in the quarter. Enbridge has strong assets that have allowed it to generate solid operating cash flow and strong dividend growth over the long term; however, Sionna believes that there are more attractive opportunities in the energy sector.

Caterpillar equipment dealer Finning was also a positive contributor this quarter. The company's positive share price performance was driven by strong new equipment sales and restored prospects for mining, and oil and gas capital expenditures across its regions. Finning has made significant adjustments to its cost structure during the recent downturn and Sionna believes it is well positioned to deliver strong earnings as volumes continue to recover.

Performance Detractors

The Fund's position in Mullen Group Ltd. detracted from performance this quarter. Mullen Group operates a diversified collection of businesses in the oilfield services and trucking industries. Many of its business segments have been weak amidst a period of low oil prices and a difficult pricing environment for trucking. Mullen has managed these challenges well by focusing on margins and cash flow while maintaining a strong balance sheet. However, the stock price continues to be volatile as the company waits for stability to return across its businesses. Mullen Group's CEO, Murray Mullen, is aligned with shareholders given his significant ownership in the

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company. Long term, Sionna believes that Mullen Group is a well-managed business that is positioned to emerge from this period even stronger.

The Fund's position in Great-West Lifeco Inc. detracted from performance this quarter. Great-West Life is a leading Canadian insurer with interests in life insurance and health insurance, investment, retirement savings and reinsurance business which are primarily in Canada and Europe. The company's reinsurance division suffered from recent heavy hurricane weather; however, such events are to be expected every few years, and do not change the fundamentals of the business. Sionna believes that Great-West Life is a good-quality, well-managed and conservative company.

Gluskin Sheff + Associates (Gluskin Sheff) also detracted from performance this quarter. Gluskin Sheff is one of Canada's largest non-bank private wealth managers. As a successful private wealth manager, Gluskin Sheff enjoys recurring revenues, high margins, strong cash flow, scalability and lucrative performance fees. As owner-operators, management has run the business well – carrying no debt and consistently paying a dividend. The market is concerned about changes to the firm's portfolio management team; however, Gluskin Sheff has grown impressively over the past decade despite personnel changes along the way.

Select Buy & Sell Activity

Sionna exited their position in AutoCanada Inc. this quarter. AutoCanada is Canada's only publicly traded auto dealership group. The company operates an attractive business model that benefits from multiple revenue sources such as new vehicle sales, parts and service, used vehicle sales and finance revenue. The company's shares have performed well due to recovering auto sales in Alberta, which is the company's largest market. Sionna continues to believe AutoCanada is well positioned for growth in a fragmented dealership market; however, following the stock's performance over the last six months, Sionna has exited the position in this concentrated mandate for opportunities that offer a more attractive risk/reward profile.

The Fund sold its position in Laurentian Bank of Canada this quarter. Laurentian Bank is a Canadian bank with most of its revenue coming from retail and commercial banking products in Quebec. The bank is undergoing a business transformation; it is restructuring its branch network and growing in certain niche business lines, with the long-term goal of improving returns on equity. The share price has increased and is approaching our estimate of intrinsic

value, so Sionna has chosen to redeploy the assets into more attractive opportunities.

Current Positioning

In Canada, 2017 was another eventful year. The housing market finally took a breather after the Ontario government introduced measures to cool the imbalances. Mortgage lender Home Capital Group experienced missteps and a fall in value that kept real estate concerns at the forefront. The price of oil erased some of the previous year's gains to dip to the low \$40s before closing the year stronger than where it started.

In the U.S., the Federal Reserve raised the benchmark interest rate three times this year – notable, considering rates were increased only five times in the past decade. Consumer confidence continued to trend upwards, while unemployment continued to trend downwards. The Republicans passed the first major tax bill in 30 years that will lower the corporate tax rate from 35% to 21%. This change was what the market hoped for, but seemed to be reflected in equity prices already and unlikely to create further gains.

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In more niche corners of the market, the combined market value for crypto-currencies skyrocketed from just under US\$18 billion in January to almost half a trillion dollars by mid-December. If you haven't heard, cannabis stocks are getting a lot of attention, although it's unclear which ones will be winners and which ones will eventually go up in smoke.

The only "sure thing" is that 2018 and beyond will also be eventful. While the market focuses on the "sure things", Sionna will instead focus on applying their proven investment process: bottom-up analysis, buying stocks below their estimate of intrinsic value and properly diversifying the portfolio. This should protect and grow capital over the long term even as macroeconomic events unfold in the backdrop.

Going with the consensus "sure thing" may appear easier. Sionna prefers to think deeply about where the crowd may be wrong. Thinking like a contrarian is a hallmark of their investment approach and has yielded many investment opportunities over the years. It may be true that great minds think alike. We just resonate more with a saying from *The Economist*, "Great minds like a think."

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				LAST 12 MONTHS			
INDUSTRY				INDUSTRY			
Top 5 Contributors		Top 5 Detractors		Top 5 Contributors		Top 5 Detractors	
	%		%		%		%
Oil, Gas & Consumable Fuels	0.59	Investment Funds	-0.86	Oil Gas & Consumable Fuels	2.98	Media	-2.02
Trading Companies & Distributors	0.28	Energy Equipment & Services	-0.52	Electric Utilities	1.13	Energy Equipment & Services	-1.59
Equity Real Estate Investment Trusts (F	0.27	Banks	-0.42	Trading Companies & Distributors	0.51	Investment Funds	-1.59
Transportation Infrastructure	0.17	Pharmaceuticals	-0.27	Insurance	0.42	Banks	-0.77
Internet Software & Services	0.09	Insurance	-0.23	Metals & Mining	0.31	Equity Real Estate Investment Trusts (REITs)	-0.60
COMPANY				COMPANY			
Top 5 Contributors		Top 5 Detractors		Top 5 Contributors		Top 5 Detractors	
	%		%		%		%
Boardwalk REIT	0.41	Mullen Group Ltd.	-0.36	Brookfield Infrastructure Partners L.P.	1.14	Aimia Inc.	-2.04
Enbridge Inc.	0.35	Great West Lifeco Inc.	-0.22	Finning International Inc.	0.56	Brandes Corporate Focus Bond Fund Cls IH	-1.61
Finning International Inc.	0.27	Gluskin Sheff + Associates	-0.21	Fairfax Financial Holdings Ltd Cum Pfd Shs	0.31	Mullen Group Ltd.	-0.91
CI Financial Corp.	0.24	Pason Systems Inc.	-0.20	IGM Financial Inc.	0.29	Boardwalk REIT	-0.72
Westshore Terminals Investment Corp.	0.17	Canadian Imperial Bank of Commerce	-0.19	Brookfield Renewable Partners LP	0.27	Ensign Energy Services Inc.	-0.44

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Quarterly Additions/Deletions

	Deletions
	AutoCanada Inc.
	Laurentian Bank of Canada

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