

# Sionna Canadian Equity Fund

## Fund Commentary

The S&P/TSX Composite Index was up 3.2% for the quarter on a total return basis.

The S&P/TSX Composite Index's quarterly return was driven by several sectors, with the natural resource sectors as the largest contributors. The energy sector was the strongest contributor to the Index's return over the quarter; however, performance was mixed among the large producers and pipelines depending on company-specific earnings results. West Texas Intermediate (WTI), the benchmark for North American light crude oil, increased 15% this quarter to US\$62 per barrel, capping off a 37% increase for the year. Supply cuts from OPEC, as well as optimism over a U.S.-China trade deal, have supported the price of WTI.

In comparison, Western Canadian Select (WCS), the benchmark for heavy crude oil in Western Canada, decreased 12% over the quarter to US\$36 per barrel – falling 3% over the course of the year. An oil spill forced a temporary shutdown of the Keystone pipeline in October, causing the WTI-WCS differential to widen. The Keystone pipeline, which has since reopened, transports approximately 590,000 barrels per day and is one of the primary means of transporting Canadian heavy oil to U.S. refineries.

Against this backdrop, the Sionna Canadian Equity Fund underperformed its benchmark, the S&P/TSX Composite Index.

### Positive Contributors

The Fund's position in CI Financial positively contributed to performance this quarter. CI Financial is one of the largest independent mutual fund companies in Canada. Over the quarter, the new CEO presented a strategy for the company that included introducing new products, improving its sales approach using predictive analytic tools and focusing on expanding into advisory services. Examples of new initiatives at CI Financial include the acquisition of the Canadian division of ETF-provider WisdomTree and discussions with a partner to offer a private equity fund. The company has an impressive history of high margins and consistent cash flows and the new initiatives are aligned with investors' increasing demand for alternative products and financial advice.

iA Financial, the fourth-largest life insurance company in Canada, positively contributed to performance this quarter. It is a conservatively run, Quebec-based company that also

owns one of Canada's largest networks of non-bank-affiliated financial advisors. Earnings results have been strong throughout 2019, leading to strong stock price performance, as well as a beneficial acquisition to close off the year. The tenured management team has demonstrated a track record of being strong operators and good capital allocators.

Brookfield Renewable Partners (Brookfield Renewable) positively contributed to performance over the quarter. Brookfield Renewable owns and operates a diversified portfolio of assets that produce electricity from renewable resources. The company has predominantly hydro assets, which are high-quality, long-life and low-cost sources of power generation. Brookfield Renewable has produced strong financial results and has continued to build out its global solar business.

### Performance Detractors

PrairieSky Royalty was the largest performance detractor this quarter. PrairieSky Royalty 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

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companies. The volatility in oil prices and ongoing pipeline capacity issues in Alberta has led to declines in industry spending, which puts negative pressure on PrairieSky's production volumes and cash flows. The company has no debt, so it is well positioned to withstand challenging environments. The management team is returning free cash flow to shareholders through dividends and share buybacks.

Sionna's lack of exposure to Shopify detracted from performance this quarter. Shopify provides e-commerce solutions for small- and medium-sized businesses. Sionna believes the current share price already reflects much of the company's future development and revenue opportunities, and that there are more attractive opportunities elsewhere in the market.

Sionna's lack of exposure to Enbridge negatively contributed to performance over the quarter. Enbridge recently announced positive forecasts for 2020 and raised its dividend, which positively impacted the stock price. The company has strong assets that have allowed it to generate solid operating cash flow over the long term; however, Sionna believes that there are more attractive opportunities elsewhere in the energy sector.

## Select Buy & Sell Activity

Boardwalk REIT (Boardwalk) was removed from the portfolio this quarter. Boardwalk owns apartment buildings across Canada, with most of its portfolio in the western region. The apartment segment of the real estate market is structurally attractive due to the diversity of tenants and the unique mortgage financing terms. Boardwalk has faced challenges due to the depressed energy industry in Alberta, which led to higher vacancy rates, lower rents and lower cash flows. However, the environment has been improving, the management team has been focused on controlling costs and recent results have demonstrated positive trends in both operating and financial results. The share price moved up, so Sionna decided to exit the position.

## Current Positioning

Just as capital cycles create peaks and troughs within industries, broader markets ebb and flow. Following the strong performance of the S&P/TSX Composite Index in 2019, the price-to-earnings multiple of the Index lifted to 14.6 times; however, it still remains below its 20-year average of 15.9 times. In comparison, the price-to-earnings multiple of the S&P 500 Index is currently 21.2 times, which is well above its 20-year average of 17.3 times. Sionna believes this environment presents an attractive opportunity

in the Canadian market, both relative to its own historical average and compared to the U.S. market. As contrarian investors, Sionna is excited by the relative attractiveness of the Canadian market and is finding compelling opportunities within the energy sector and other stable sectors, such as consumer staples. It is precisely in these environments where sticking to a time-tested value investing philosophy can help uncover out-of-favour investment opportunities that Sionna believes can generate strong returns over the long term.

## 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	%
Capital Markets	0.43	Oil, Gas & Consumable Fuels	-1.11
Insurance	0.29	Metals & Mining	-0.62
Diversified Telecom. Services	0.27	IT Services	-0.38
Chemicals	0.20	Energy Equip. & Services	-0.28
Independent Power & Renew. Energy	0.19	Banks	-0.27

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
CI Financial Corp	0.41	Prairiesky Royalty Ltd	-0.72
iA Financial Corp Inc	0.28	ShawCor Ltd	-0.29
Brookfield Renewable Energy	0.23	Bank of Nova Scotia	-0.20
Finning International Inc	0.18	Stella-Jones Inc	-0.19
Canadian Natural Resources Limited	0.17	Metro Inc.	-0.16

### LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Media	0.77	Oil, Gas & Consumable Fuels	-1.44
Independent Power & Renew. Energy	0.74	IT Services	-1.21
Pharmaceuticals	0.46	Paper & Forest Products	-0.70
Capital Markets	0.40	Metals & Mining	-0.65
Multi-Utilities	0.33	Energy Equip. & Services	-0.56

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
Brookfield Renewable Energy	0.85	Prairiesky Royalty Ltd	-1.12
Cogeco Communications Inc	0.71	Stella-Jones Inc	-0.81
iA Financial Corp Inc	0.60	Imperial Oil Ltd	-0.70
Intact Financial Corp	0.38	Methanex Corp	-0.68
Brookfield Infrastructure Partners	0.27	ShawCor Ltd	-0.67

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## Quarterly Additions/Deletions

Additions	Deletions
	Boarwalk REIT

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