

Sionna Canadian Small Cap Equity Fund

Fund Commentary

During the quarter, the Sionna Canadian Small Cap Equity Fund outperformed its benchmark, the BMO Small Cap Index.

Positive Contributors

The Fund's position in Winpak Ltd. (Winpak) contributed positively to performance. The company manufactures high-quality packaging materials for the food and healthcare markets, and generates stable growth in free cash flow. The management team has reinvested this capital wisely to grow the business, while still paying a significant dividend.

Another positive contributor was ATS Automation Tooling Systems (ATS). ATS is an industry-leading automation solutions provider. The stock performed well as the new CEO, Andrew Hider, executed on the company's plan to grow the business organically and through acquisitions. The company's acquisition of KMW, a German-based supplier of micro-assembly systems and test equipment solutions, was both strategic, since it should help to strengthen ATS's position in the electric vehicle market, and financially attractive as it was completed at a reasonable valuation.

FirstService was also a positive contributor this quarter. FirstService is seeing strong performance in both its residential property management business and its brands business (the ownership of different franchises, such as CertaPro Painters and California Closets), which has translated to impressive earnings growth. FirstService continues to be a great example of how strong management can deliver results that exceed market expectations.

Performance Detractors

The Fund's position in Dream Unlimited (Dream) contributed negatively to performance this quarter. Dream is a developer of various types of real estate across Canada. The company experienced a weak quarter and lowered earnings guidance mainly due to continued softness in Saskatchewan. In real estate sales, it is not unusual to see some lumpiness quarter-over-quarter. Meanwhile, the company has obtained approvals to develop more of its land in Calgary and Regina. Dream continues to grow in book value, and we believe the current share price understates the company's vast holdings.

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.

AirBoss of America also detracted from performance this quarter. Global trade uncertainty led to raw material price increases, which compressed margins. Capacity utilization continues to remain low and we believe that the opportunity to reposition the business towards higher-margin customers remains intact.

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

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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.

only on companies that it believes will help compound its clients' capital.

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

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Contribution Analysis (relative to benchmark)

LAST QUARTER				LAST 12 MONTHS			
SECTOR				SECTOR			
Top 5 Contributors	%	Top 5 Detractors	%	Top 5 Contributors	%	Top 5 Detractors	%
Materials	2.78	Information Technology	-1.20	Materials	4.52	Health Care	-2.44
Industrials	0.64	Energy	-0.63	Consumer Discretionary	2.19	Energy	-1.33
Financials	0.19	Health Care	-0.56	Industrials	1.56	Information Technology	-0.27
Real Estate	0.11	Consumer Discretionary	-0.45	Real Estate	1.04	Financials	-0.22
Utilities	0.07	Communication Services	-0.14	Utilities	0.44	-	
COMPANY				COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%	Top 5 Contributors	%	Top 5 Detractors	%
Wnpak Ltd.	0.54	Dream Unlimited	-0.75	Great Canadian Gaming Corp	1.42	AutoCanada Inc.	-0.96
ATS Automation Tooling Systems Inc.	0.49	Computer Modelling Group Ltd.	-0.67	ATS Automation Tooling Systems Inc.	1.21	Total Energy Services Inc.	-0.78
FirstService Corp.	0.46	Airboss of America Corp	-0.58	FirstService Corp	1.17	Pulse Seismic Inc.	-0.60
Guardian Capital Group Ltd.	0.43	Aphria Inc	-0.52	Wajax Corp.	0.76	Wnpak Ltd.	-0.40
New Gold Inc.	0.39	EnerCare Inc.	-0.49	Boardwalk REIT	0.64	ShawCor Ltd.	-0.32

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