

Sionna Monthly 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 Monthly Income Fund underperformed its blended benchmark (60% S&P/TSX Composite Index and 40% FTSE TMX Canada Universe Bond Index).

Positive Contributors

Alimentation Couche-Tard (Couche-Tard) positively contributed to the portfolio's performance this quarter. Couche-Tard is one of the world's largest convenience store and gas station operators, with more than 15,000 locations globally. The company is well managed and has a strong track record of successfully growing through disciplined acquisitions. The stock performed well over the period as sales in some cyclically weak regions improved and resulted in strong quarterly results. Couche-Tard has also seen solid progress integrating recent acquisitions into its network and has managed to pay down debt quicker than expected, which further strengthened its positioning. Over the long term, the company is well positioned to continue to grow its network inside and outside of North America in what remains a very fragmented convenience market.

Another positive contributor was Intact Financial (Intact), the leading property and casualty insurer in Canada. 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.

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.

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

Metro, a grocery retailer in Ontario and Quebec, negatively contributed to performance this quarter. The overall environment for grocery retailing has been competitive, making it difficult for grocers to pass along cost increases to their customers. Metro is a high-quality operator that is focused on returning capital to shareholders through share buybacks and dividend payments. We like the company's continued focus on controlling costs and its strong management team. We continue to believe Metro offers compelling relative value in a defensive sector.

Select Buy & Sell Activity

Onex Corp. (Onex) was eliminated from the portfolio this quarter. Onex is a private equity and credit firm that has a long history of generating above-average returns. The firm has a well-defined investment approach and a strong

culture of ownership. The firm has successfully grown its net asset value and its fee-generating assets under management. We continue to believe that Onex will produce attractive returns over the long term; however the discount to our estimated intrinsic value has narrowed, so we chose to exit the name.

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				LAST 12 MONTHS			
INDUSTRY				INDUSTRY			
Top 5 Contributors	%	Top 5 Detractors	%	Top 5 Contributors	%	Top 5 Detractors	%
Metals & Mining	1.44	Capital Markets	-0.52	Metals & Mining	1.61	Capital Markets	-1.29
Equity Real Estate Inv. Trusts	0.39	Pharmaceuticals	-0.47	Equity Real Estate Inv. Trusts	0.94	Banks	-0.82
Insurance	0.36	Banks	-0.42	Chemicals	0.91	Pharmaceuticals	-0.76
Chemicals	0.20	Road & Rail	-0.31	Food & Staples Retailing	0.79	Road & Rail	-0.47
Multiline Retail	0.20	Oil, Gas & Consumable Fuels	-0.21	IT Services	0.49	Multi-Utilities	-0.47
COMPANY				COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%	Top 5 Contributors	%	Top 5 Detractors	%
Alimentation Couche-Tard	0.49	PrairieSky Royalty Ltd.	-0.45	Methanex Corp.	1.01	PrairieSky Royalty Ltd.	-1.58
Intact Financial Corp.	0.45	CI Financial Corp	-0.44	Boardwalk REIT	0.95	CI Financial Corp	-1.05
Boardwalk REIT	0.41	Metro Inc.	-0.25	CGI Group Inc	0.49	Atco Ltd.	-0.43
Enbridge Inc.	0.33	Canadian Pacific Railway Limited	-0.22	Alimentation Couche-Tard	0.46	Great-West Lifeco Inc.	-0.40
Methanex Corp.	0.20	Canadian Natural Resources Ltd.	-0.21	Empire Company Ltd.	0.45	ShawCor Ltd.	-0.39

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