

Sionna Opportunities 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 Opportunities Fund outperformed its blended benchmark (50% S&P 500 Index and 50% S&P/TSX Composite Index).

Positive Contributors

The Fund's position in Polaris Industries Inc. contributed positively to performance this quarter. Polaris Industries designs, engineers and manufactures off-road vehicles and motorcycles. The company is a market leader that holds strong competitive advantages and has a track record of generating impressive free cash flow and superior returns on capital. The company experienced a jump in snowmobile sales this quarter, causing the stock price to increase and positively impact the performance of the portfolio.

The Fund's position in Tractor Supply Company also contributed positively to performance this quarter. Tractor Supply is the largest operator of rural lifestyle retail stores in the United States, supplying basic maintenance products for home, land and animal owners. The company operates approximately 1,500 stores across 49 states and offers a variety of exclusive brands. Tractor Supply has built an efficient distribution network, which has allowed the company to generate high operating margins and grow its return on invested capital to approximately 40%. Recently, the stock has seen an increase in price due to the company's growth initiatives and solid earnings, which positively contributed to performance this quarter.

GGP Inc has also positively contributed to performance this quarter. GGP is a real estate company focused on owning, managing, leasing and redeveloping high-quality retail properties in the United States. It was a positive contributor to performance this quarter after Brookfield made a bid to acquire the portion of GGP that it didn't already own. Although Sionna believes that Brookfield is trying to acquire the company for a large discount to their estimate of its intrinsic value, Sionna is pleased that Brookfield, like themselves, has conviction in the high-quality assets that

are owned by GGP – including 100 of the top 500 malls in the United States.

Performance Detractors

CarMax was a negative contributor to performance. While the stock experienced an unwarranted decline this quarter, Sionna believes that the company's scale and experience in purchasing and selling used cars provides it with a sustainable competitive advantage and a long runway for growth.

The Fund's position in AirBoss of America contributed negatively to performance this quarter. AirBoss continues to experience low volumes in the rubber compounding segment, with a capacity utilization rate of 50%. Management has refocused the business towards higher-margin customers, and despite the current volume levels, profits and margins are now at higher levels.

Winpak Ltd. also detracted from performance this quarter. The market was concerned with rising raw material costs and the strengthening Canadian dollar. The company manufactures high-quality packaging materials for the food

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and health-care 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.

Select Buy & Sell Activity

Sionna added TJX Companies (TJX) to the portfolio in the fourth quarter. TJX is a leading player in the global off-price retail industry, with store banners such as T.J. Maxx, Marshalls and Winners. The company has created an appealing “treasure hunt” shopping experience and offers consistently low prices to consumers, which has led to a strong long-term track record of growing same-store sales and earnings-per-share. This shopping experience is achieved by the company sourcing merchandise from 18,000 vendors, often in small volumes. Sionna believes the purchasing expertise developed by the company makes it very difficult for a competitor to replicate its business model. TJX has historically traded at a large premium to the market; however, general concerns around the retail industry have depressed the valuation of TJX. Sionna believes the current valuation underestimates the resiliency in its business model and its long runway, so they took the opportunity to add the name to the portfolio.

Winpak Ltd was also added to the portfolio this quarter. Winpak manufactures and distributes high-quality packaging materials for the food and health-care markets. Sionna had the opportunity to add the name to the portfolio due to a price weakness resulting from market concern of rising raw material costs and the strengthening Canadian dollar. Winpak generates stable growth in free cash flow and management has reinvested this capital wisely to grow the business, while still paying a significant dividend.

Sionna eliminated Iridium Communications from the portfolio this quarter. Iridium Communications provides mobile voice and data communications via satellite. The company has had a string of successful satellite launches, and is on track to deploy its full constellation of satellites, causing the stock price to increase. Sionna made the decision in this concentrated mandate to redeploy the capital into opportunities that offer a better risk/reward profile.

The Fund’s position in Polaris Industries (Polaris) was also eliminated from the portfolio this quarter. Polaris designs, engineers and manufactures off-road vehicles and motorcycles. The company is a market leader that holds strong competitive advantages and has a track record of generating impressive free cash flow and superior returns

on capital. Polaris has recently experienced strong performance due to an increase in sales. As a result, the stock is trading above Sionna’s estimate of intrinsic value and they exited the name this quarter.

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

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Leisure Products	1.04	Specialty Retail	-0.54
Equity Real Estate Investment Trusts (REITs)	0.54	Chemicals	-0.37
Biotechnology	0.21	Hotels Restaurants & Leisure	-0.21
Trading Companies & Distributors	0.20	Real Estate Management & Development	-0.19
[Unassigned]	0.17	Software	-0.13

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Polaris Industries Inc.	1.32	CarMax Inc.	-0.59
Tractor Supply Company	0.72	Airboss of America	-0.18
GGP Inc	0.72	Winpak Ltd.	-0.08
Diageo PLC - ADR	0.48	AutoCanada Inc.	-0.07
Empire Ltd.	0.47	Morguard Corp.	-0.07

LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Food & Staples Retailing	2.32	Specialty Retail	-0.80
Leisure Products	1.63	Chemicals	-0.59
Capital Markets	1.19	Software	-0.48
Beverages	1.17	Technology Hardware Storage & Peripherals	-0.47
Hotels Restaurants & Leisure	1.05	Internet Software & Services	-0.42

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Empire Co. Ltd. Class A	2.14	Imperial Oil Limited	-0.89
Polaris Industries Inc.	1.62	National Oilwell Varco, Inc.	-0.67
Great Canadian Gaming Corporation	1.06	CarMax Inc.	-0.67
Diageo plc Sponsored ADR	1.00	ATN International, Inc.	-0.66
Brookfield Infrastructure Partners L.P.	0.91	AirBoss of America Corporation	-0.60

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