Sionna Opportunities Fund

Fund Commentary

The S&P/TSX Composite Index was down 10.1% this quarter on a total return basis.

As uncertainty gripped the market, investors fled the cyclical sectors and sought safety in the historically stable sectors. As such, energy and financials negatively contributed to the S&P/TSX Composite Index, while staples and communication services positively contributed this quarter.

Within the energy sector, oil producers led the decline as West Texas Intermediate (WTI), the benchmark for North American light crude oil, fell 38% this quarter to US$45 per barrel. This was a dramatic fall after WTI trended upwards for the first three quarters of the year, peaking at US$76 in early October. Western Canadian Select (WCS), the benchmark for heavy crude in Western Canada, experienced a more severe decline, at one point dipping to US$13 before closing the year at US$30.

In the financials sector, the banks were the largest detractors. Worries about a slowing economy, the softening housing market and how market uncertainties may impact the banks' capital markets and asset management divisions negatively weighed on stocks.

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 Starbucks was a major contributor to performance this quarter. Starbucks is a global coffee company that offers brewed and espresso-based coffee beverages, smoothies and teas. The company has 28,000 stores around the world, with 3,300 of those in the rapidly growing Chinese market. Starbucks has a long track record of impressive performance, a solid balance sheet and strong returns on capital. The stock performed well this quarter after the company reported better-than-expected same-store sales, specifically in North America. In addition, management has decided to return capital to shareholders through increased dividends and buybacks, which we believe is a good use of capital and should add to the stock's total return.

Metro, a grocery retailer in Ontario and Quebec, also contributed positively to performance. Metro is a high-quality operator focused on returning capital to shareholders through share buybacks and dividend payments. We like the company's focus on controlling costs and its strong management team. We continue to believe Metro offers compelling relative value in a defensive sector.

Another contributor to performance was Tractor Supply Company. The company is the largest operator of rural lifestyle retail stores in the U.S., 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. The stock has performed well as store traffic and same-store sales have rebounded following a period of weakness. We believe that Tractor Supply Company has a differentiated business model and a product offering that resonates well with its core customer, both of which have led to a long-term record of success for the business.

Performance Detractors

Computer Modelling Group (CMG) was a detractor from performance this quarter. CMG develops and sells reservoir simulation software to oil and gas companies. The company detracted from returns as sentiment towards the oil and gas sector, particularly in Canada, was negative this quarter. Both the benchmark price for North American light crude oil and for Western Canadian heavy crude oil fell this quarter. A declining oil price weighed on oil and gas producers, who are CMG's customers. Despite a challenging oil price environment, over the long term, production from unconventional supply sources is forecasted to increase as the availability of easy-to-extract oil declines. As such, the 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.

Caterpillar equipment dealer Finning International (Finning) was a negative contributor over the quarter. While the business has been strong overall, we believe the stock has been weak due to challenges in its Argentinian business and general macroeconomic concerns. Finning has made significant adjustments to its cost structure during the recent downturn and we believe it is well positioned to deliver strong results as volumes recover.

Additionally, AirBoss of America negatively contributed to performance. The company develops, manufactures and markets high-quality, rubber-based products to various industries. 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

We added Dollar General to the portfolio this quarter. The company is a U.S. discount retailer that serves predominantly lower-density, non-urban regions in America. Management is focused on keeping costs under control and ensuring that any spending has the potential to bring solid returns. Dollar General's business model is defensive in nature since consumers tend to shift spending to the discount channel during times of economic weakness. The stock has been trading at a relative discount to other retail names and we have taken the opportunity to add it to the portfolio. We believe the combination of defensive business characteristics and its attractive relative valuation make Dollar General a solid stock to hold in the present market environment.

IPG Photonics (IPG) was another addition to the portfolio this quarter. IPG is an owner-operated company involved in the development and manufacturing of laser sources for use in various commercial applications. The company is the undisputed global leader in fibre laser technology, and the firm's scale and vertical integration allow it to remain competitive on cost even with emerging players from Asia. The opportunity to add IPG primarily arose due to weakness in the manufacturing sector's capital expenditure, which led to reductions in the firm's near-term guidance. We believe the company is attractively positioned from a secular perspective since the use of laser systems in manufacturing settings has a long runway for further growth.

We eliminated Boardwalk REIT from the portfolio this quarter. Boardwalk REIT has an excellent portfolio of multi-family real estate assets, and a proven management team that is well aligned with shareholders as demonstrated through a sizeable ownership of the stock. While we still believe Boardwalk REIT is trading below our estimate of intrinsic value, in this concentrated portfolio we decided to exit the name in response to its strong share price movement over the last year and redeploy the capital into other opportunities.

TJX Companies (TJX) was also eliminated from the portfolio. The company 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 a strong long-term track record of growing same-store sales and earnings-per-share due to its appealing "treasure hunt" shopping experience combined with consistently low prices offered to consumers. While we continue to believe TJX is a strong company, in this concentrated portfolio we exited the name and redeployed the capital into other opportunities within the retail space.

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We also exited our position in Tractor Supply Company. The stock has performed well as store traffic and same-store sales rebounded following a period of weakness, so we decided to redeploy capital into other opportunities.

Current Positioning

Around the world, investors were concerned about ongoing trade disputes and slowing global growth. It is anticipated that borrowing costs will increase as the Federal Reserve is expected to raise its benchmark interest rate two more times in 2019. Similarly in Europe, monetary tightening is taking place as the European Central Bank announced it will stop its bond-buying program after nearly four years.

In Canada, investors were also worried about rising rates but were more concerned with the energy sector. Over the year, both WTI and WCS prices declined. The differential between WTI and WCS prices, which has historically been in the US$15-25 range, widened to US$50 at one point. The spread narrowed to US$16 at the end of the year. Even still, oil producers signalled their intention to reduce capital spending next year, further hampering growth in the already weakened energy sector.

We are watchful for the next economic downturn but are more interested in the "secular bull" phenomenon; equities have historically risen over the long-term no matter the macroeconomic backdrop. Periods of cyclical downturns are therefore opportunities to enhance long-run returns.

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	%
Banks	1.51	Energy Equip. & Services	-0.96
Hotels, Restaurants & Leisure	1.02	Capital Markets	-0.86
Oil, Gas & Consumable Fuels	0.72	Trading Companies & Dist.	-0.76
Tech. Hardware, Storage & Periph.	0.60	Chemicals	-0.55
Food & Staples Retailing	0.41	Elect. Equip., Instr. & Components	-0.52

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Starbucks Corp	0.85	Computer Modelling Group Ltd.	-0.96
Metro Inc.	0.40	AirBoss of America Corp	-0.81
Tractor Supply Co	0.25	Finning International Inc.	-0.81
Diageo plc Sponsored ADR	0.24	PrairieSky Royalty Ltd.	-0.73
Alimentation Couche-Tard	0.16	Imperial Oil Ltd.	-0.62

LAST 12 MONTHS

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
Hotels, Restaurants & Leisure	2.72	Energy Equip. & Services	-1.17
Specialty Retail	2.51	Beverages	-0.88
Food & Staples Retailing	1.12	Trading Companies & Dist.	-0.75
Banks	0.96	Multi-Utilities	-0.69
Diversified Financial Services	0.49	Software	-0.68

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Tractor Supply Co	1.41	PrairieSky Royalty Ltd.	-2.02
Great Canadian Gaming Corp	1.36	Ambev SA	-1.20
Starbucks Corp	1.16	Computer Modelling Group Ltd.	-1.17
TJX Companies Inc.	0.89	Finning International Inc.	-0.76
Alimentation Couche-Tard	0.72	Brookfield Infrastructure PA	-0.66

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Quarterly Additions/Deletions

Additions
IPG Photonics Corp
Dollar General Corp

Deletions
Boardwalk REIT
TJX Companies Inc.
Tractor Supply Co

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