Sionna Opportunities Fund

Fund Commentary

The S&P/TSX Composite Index was up 6.0% for the quarter on a total return basis. The market was strong across all sectors apart from health care and utilities. The negative sectors were weighed down by the weakness in cannabis stocks overall and the notable decline in Algonquin Power & Utilities Corp. which fell by 39.9% on the back of weak results driven by rising interest rates, weak power generation and other macroeconomic headwinds.

The more economically sensitive areas of the market continued to outperform during the quarter, led by energy, financials, industrials and materials. The energy sector contributed 1.7% to the Index's performance despite a 30.1% decline in the price of natural gas, driven by warmer-than-expected temperatures in Europe and North America, lower purchasing volumes out of China and stronger-than-expected U.S. inventories. Stock prices of energy companies strengthened as investors continued to reward their operational and capital discipline, which included debt reduction, share buybacks and increasing dividends.

TD and RBC were the standout banks in the quarter as TD tends to benefit more on a relative basis from higher interest rates and RBC continues to be viewed as a high-quality bank in the current macro environment. CIBC was a notable detractor to the financial sector's performance due to its high exposure to Canadian residential real estate.

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 ING Groep (ING), a Dutch multinational banking and financial services corporation, positively contributed to performance this quarter. The bank produced solid results this quarter and remains very well positioned in its core Benelux markets, as its capital positions remain amongst the strongest in Europe. We (Sionna) continue to believe ING is well positioned in its core markets with high market shares, a flexible cost structure and a very well-capitalized balance sheet that will allow for growing payouts to shareholders in the periods ahead.

The Fund's position in Fairfax Financial Holdings (Fairfax) was another positive contributor to performance. Fairfax is a property and casualty insurer. The stock has done well with healthy industry fundamentals and strong investment income, and has benefited from improved pricing, policy growth, rising interest rates and disciplined underwriting. We continue to believe the Fairfax management team invests with a long-term horizon and is focused on capital preservation as their track record suggests. We also continue to believe the company has a world-class insurance franchise that should continue to grow into the future. Additionally, it is in our opinion attractively valued at a forward P/E below 7x and trades at book value.

In addition, the Fund's position in Tapestry Inc. positively contributed to performance. Tapestry is a globally focused consumer fashion accessory company based in the United States with a portfolio that includes well-known premium priced brands such as Coach, Kate Spade and Stuart Weitzman. Tapestry's stock was a strong performer during the quarter, benefiting from continued improvements within the business in areas such as product development, brand positioning and retail execution. We continue to believe the business is well positioned for long-term growth and it continues to trade below our assessment of its intrinsic value.

Sionna Opportunities Fund

Performance Detractors

The Fund's position in Nutrien detracted from performance over the quarter. The company's stock price declined following disappointing news that its potash volumes this year are expected to be lower than previously reported. Both North American and Brazilian markets have been hesitant to restock depleted inventories as prices have been coming down, suggesting that delivered volumes are going straight to the farmer and into the ground. We believe this is a temporary timing issue, and the share price continues to be trading significantly below our estimate of its intrinsic value and has had strong returns on a year-to-date basis (and longer).

Alphabet, the world's largest internet search company, had a challenging year overall and was another detractor from performance. The company relies primarily on advertising to generate revenues, more than half of which are derived outside the U.S. Over the year, the company saw significant declines as revenue growth slowed and investors worried about weaker search-advertising trends. We continue to believe Alphabet is an attractive opportunity as a world-leading business and the stock continues to trade below our estimate of its intrinsic value.

In addition, Koninklijke Philips (Philips) detracted from performance. Philips is a diversified global health-care company based out of the Netherlands with a strong focus on technology, including diagnosis and treatment, connected care and personal health. Philips enjoys leading market shares in most of its product franchises, categories that should continue to benefit from structural growth drivers such as demographics, emerging market penetration and the overall need to reduce inefficiencies within global health-care systems.

Select Buy & Sell Activity

Brookfield, one of the Fund's holdings, recently spun off part of its asset management business. There are now two separate entities: Brookfield Asset Management (the new asset management business) and Brookfield Corporation (the parent company). As a result of the spinoff, we received shares in the new Brookfield Asset Management entity. We are currently evaluating Brookfield Asset Management to determine the optimal position in the portfolio and will continue to retain our holdings in Brookfield Corporation.

The Bank of New York Mellon (BNY) was added to the portfolio this quarter. BNY is the world's largest custodian with over $42 trillion in assets under custody or administration and is a meaningful player in the global asset management business. The ultra-low interest rates of recent years presented challenges to BNY's revenue streams in the form of compressed net interest margins and waved fees on its massive platform of money-market funds. The business has been cutting costs and improving its competitive position, which should allow it to earn improved returns as the interest-rate challenges dissipate in the periods ahead. We believe BNY offers very attractive long-term returns from today's discounted valuation levels.

We also added JPMorgan Chase (JPM) to the portfolio this quarter. JPM is the largest U.S. bank by market value. It has four major segments: consumer banking, corporate and investment banking, commercial banking, and wealth management. Concerns over a potential recession and the impact it could bring across all levels of banking has negatively impacted the bank sector recently. We believe JPM is one of the best managed banks globally, offering diverse and balanced revenue streams and a fortress-like capital structure. Recent indiscriminate selling seen in the bank stocks has provided an opportunity to own a leading, high-quality financial institution at a discounted valuation.

Bank of Nova Scotia (BNS), Canada's third-largest bank by total assets, was eliminated from the strategy this quarter. We no longer consider BNS one of our highest-conviction names, so we redeployed the capital into more attractive opportunities.

Citigroup, a globally diversified financial services company, was also eliminated from the portfolio. Citigroup is in the

Sionna Opportunities Fund

midst of a major strategic shift with management focusing on initiatives to strategically improve returns across the banking group. Recent results highlighted the complexity of this task and while we still have confidence the management team can work through these challenges, they are proving to be more long-term in nature, as such, we exited the name and redeployed the capital into more attractive opportunities.

Finally, Fresenius Medical Care (FMC) was removed from the portfolio this quarter. The company is a leading provider of dialysis products and services, with more than 4,000 outpatient dialysis centres globally. The ongoing impact from reduced treatment volume during COVID-19 continues to weigh on the business, and while these strains have alleviated, labour availability and inflationary cost pressures have worked to hold back a meaningful earnings recovery. With other areas of the market demonstrating attractive valuations, we decided it would be prudent to exit the name and redeploy capital into opportunities with a stronger risk/reward profile.

Current Positioning

War, inflation, COVID-19, rising interest rates, crypto blow-ups, growth stocks crashing…2022 had it all…

Heading into 2022 felt as though we were finally starting to see the light at the end of the tunnel as COVID-19 restrictions were waning and society was generally getting back to a level of normalcy not experienced since 2019. There were rumblings of a return of inflation, but the market was convinced it was going to be transient and short-lived, and with the return to normalcy in everyday life, the market thought inflation would be manageable.

Then Russia invaded Ukraine and the world's outlook on inflation started to shift towards it being more sustained than originally thought as fertilizer markets got tighter, cheap Russian gas wasn't flowing as freely into Western Europe, supply chains continued to experience significant bottlenecks and the lingering effects of loose COVID-19 monetary policy started to stoke inflation higher.

To fight the persistently high inflation, central banks around the globe started to raise interest rates and the U.S. 10-year rate more than doubled from 1.5% to 3.9% at year's end and Canada's own benchmark rate increased to 3.3% from 1.4% at the start of the year. This dramatic and sharp increase in rates challenged the bond market and the equity market all year long with high-priced growth stocks feeling the brunt of the pain.

Canada's market was a relative standout amongst developed countries, especially Canadian value stocks…

Canada outperformed nearly every developed market peer except for the U.K. in 2022. This strong relative performance is largely due to the relatively high weighting of the Canadian market towards the oil and gas sector, non-gold materials and financial services.

Critics will be quick to point out that these sectors are cyclical in nature and the outperformance of Canada will be short-lived. We don't think this is the case. The energy and materials sectors in Canada are made up of companies with world-class operating practices, which are allocating capital conservatively and are returning much of the excess free cash flow to their shareholders.

The financial services sector, in particular the banking sub-sector, is trading at significant discounts to their long-term average trading multiples, is sitting on significant excess capital balances and is well prepared to deal with any downturn in the economy.

In addition to these factors, it is important to note that Canada is still fairly valued relative to its developed market peers and is offering a quite attractive dividend yield, in our opinion. Put this all together and it suggests Canadian equities overall are well positioned to outperform the U.S.

2022 was a whirlwind and we don't try to predict where the market will go in a 12-month time frame, but...

Sionna Opportunities Fund

We do spend a lot of time understanding both the expected returns and the relevant risks of the companies we hold in our portfolios. Our discussions are focused on consistently trying to balance these forces across our portfolios to ensure we are well protected in the event of a downturn but are also well positioned to benefit from a rebound in markets.

Our portfolios are showing healthy expected returns and we frequently say the best opportunities are the ones within our own portfolios. Financial mathematics demonstrates that historically, the largest contributor to forward returns is the price you pay for the asset. We believe that our portfolios are not only chock-full of attractively valued stocks but also equally full of high-quality businesses with low levels of financial risk.

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.

Sionna Opportunities Fund

Contribution Analysis

LAST QUARTER

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
Insurance	0.90	Oil, Gas & Consumable Fuels	-0.60
Automobiles	0.72	Chemicals	-0.49
Textiles, Apparel & Luxury Goods	0.65	Metals & Mining	-0.44
Internet & Direct Marketing Retail	0.54	Multiline Retail	-0.25
Food & Staples Retailing	0.50	IT Services	-0.21

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
ING Groep NV	1.61	Nutrien Ltd.	-0.43
Fairfax Financial Holdings Ltd.	0.85	Advantage Energy	-0.33
Tapestry Inc	0.70	Koninklijke Philips N.V.	-0.32
Quebecor Inc. Cl. B	0.57	Canadian Tire Ltd.	-0.29
Restaurant Brands International	0.49	Alphabet Inc	-0.27

LAST 12 MONTHS

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
IT Services	2.20	Multiline Retail	-0.55
Oil, Gas & Consumable Fuels	1.94	Chemicals	-0.55
Insurance	1.48	Metals & Mining	-0.45
Hotels, Restaurants & Leisure	0.92	Banks	-0.42
Textiles, Apparel & Luxury Goods	0.87	Health Care Prov. & Services	-0.40

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Suncor Energy Inc.	2.66	Fresenius Medical Care	-1.51
ARC Resources Ltd.	1.95	Open Text Corp.	-0.97
Fairfax Financial Holdings Ltd.	1.57	Koninklijke Philips N.V.	-0.90
Shell PLC	1.51	Walgreens Boots Alliance Inc	-0.56
Johnson & Johnson Inc.	0.98	Alphabet Inc	-0.54

Sionna Opportunities Fund

Quarterly Additions/Deletions

Additions
Brookfield Asset Management
Bank of New York Mellon Corp
JP Morgan Chase & Co

Deletions
Brookfield Asset Management
Bank of Nova Scotia
Citigroup
Fresenius Medical Care

Sionna Opportunities Fund

Published January 26, 2023

Sionna Investment Managers®

on the BRIDGEHOUSE INDEPENDENT PLATFORM