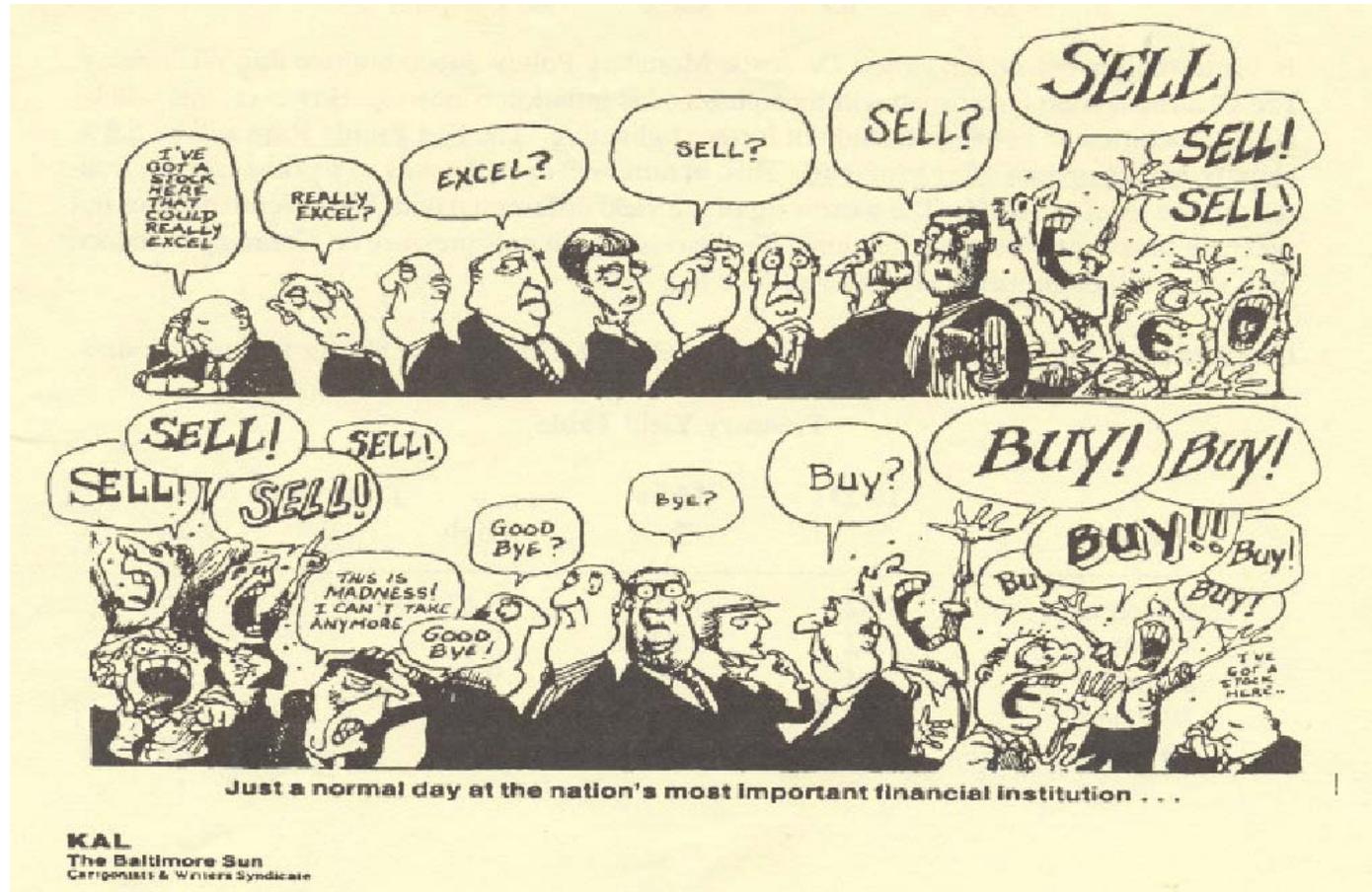




**Kim Shannon Visit at
Ivey Business School at Western University**

March 4, 2015

We Have a Tendency to Excess



Source: Baltimore Sun, October 7, 1989
Provided for illustrative purposes only.

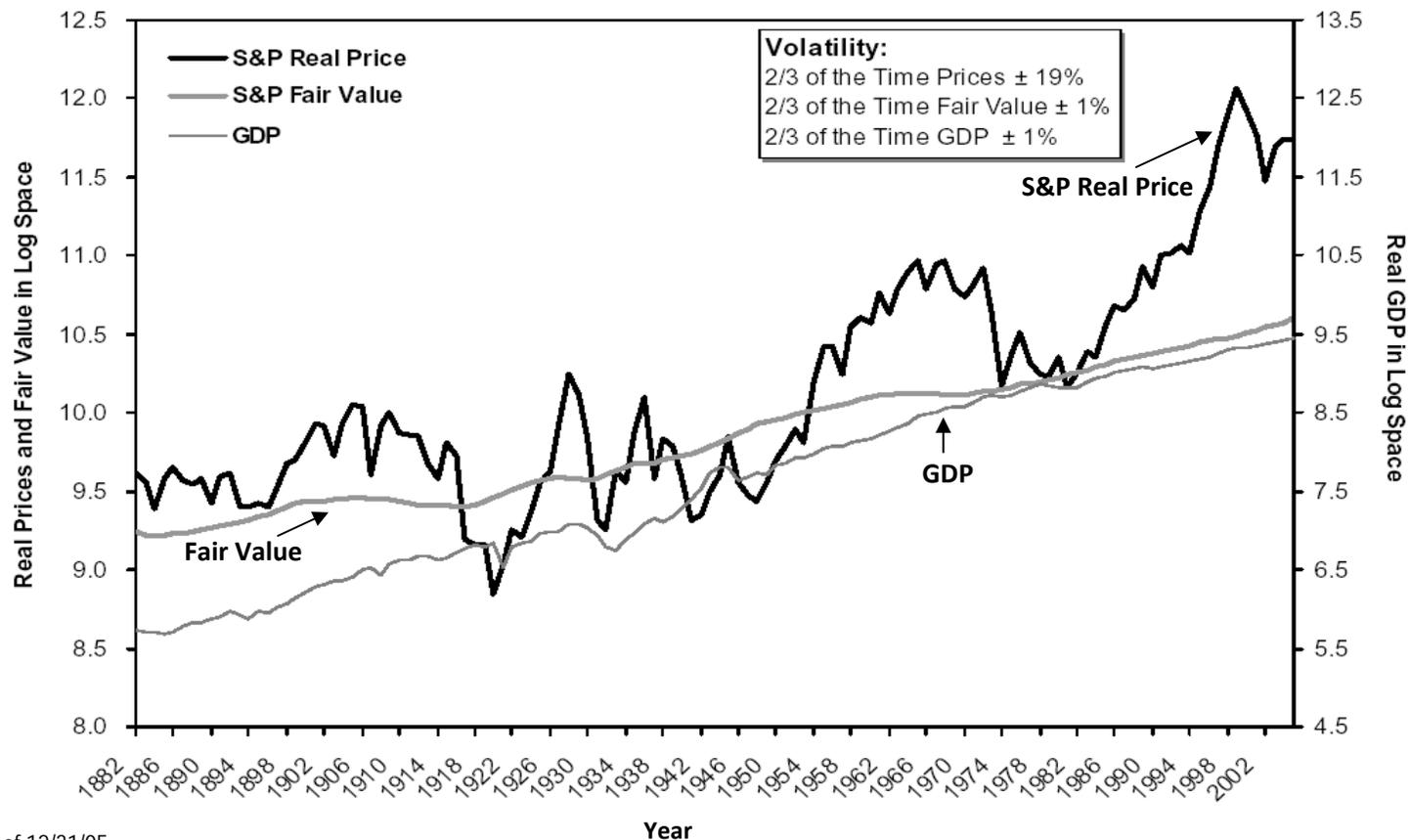
Investing can be Emotional...



Source: LCM Perspectives, September 15, 1997
Provided for illustrative purposes only.

Market Action is Typically More Volatile than Underlying Economic Activity

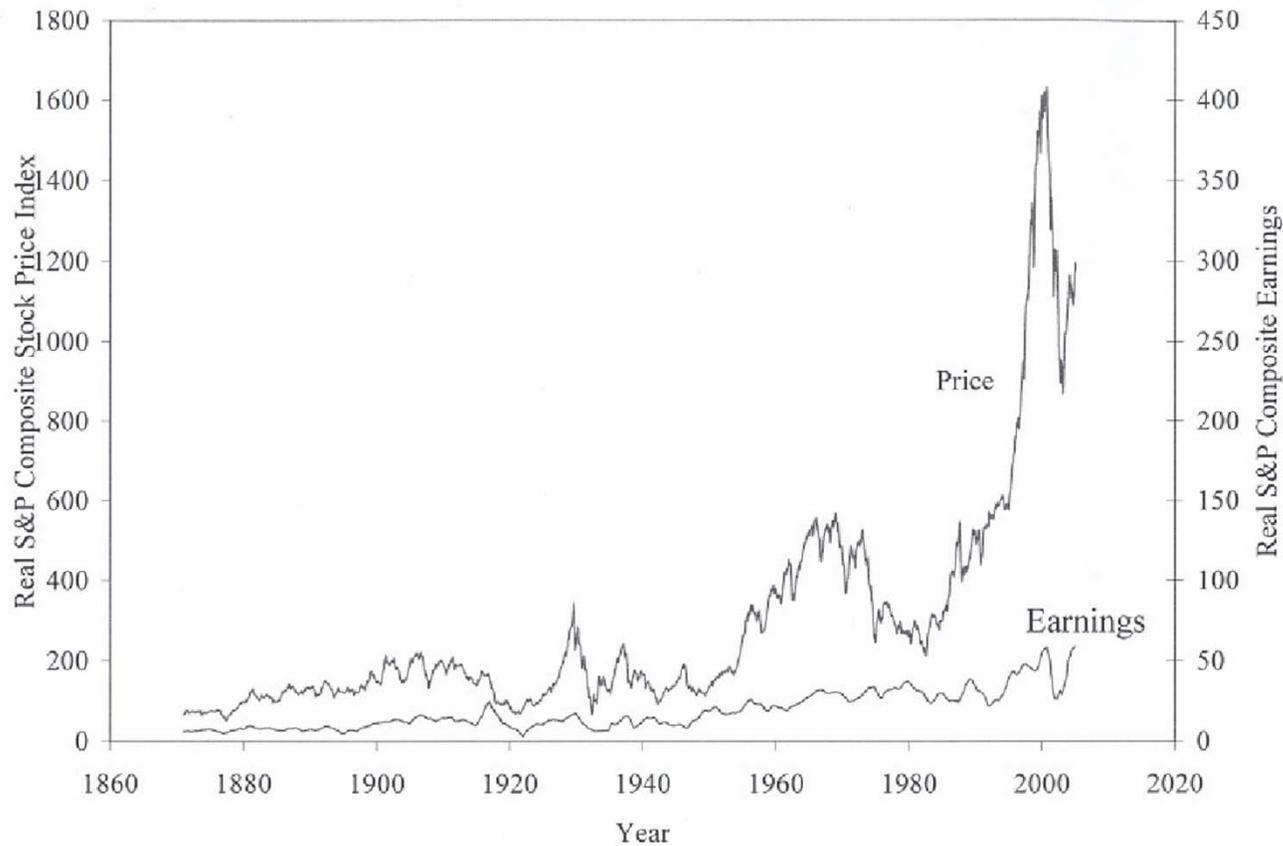
Real S&P price vs. perfect foresight fair value:
1882–2005



*Schiller Model as of 12/31/05

Source: GMO, Standard & Poor's, Federal Reserve. The above returns do not represent the performance of any product or security managed by Sionna and are provided for illustrative purposes only. The performance presented represents historical performance of an unmanaged index. Returns would have been lower if they were subject to management fees and trading expenses. Past performance is not an indicator of future results. The indices are unmanaged and have no fees. One cannot invest directly in an Index.

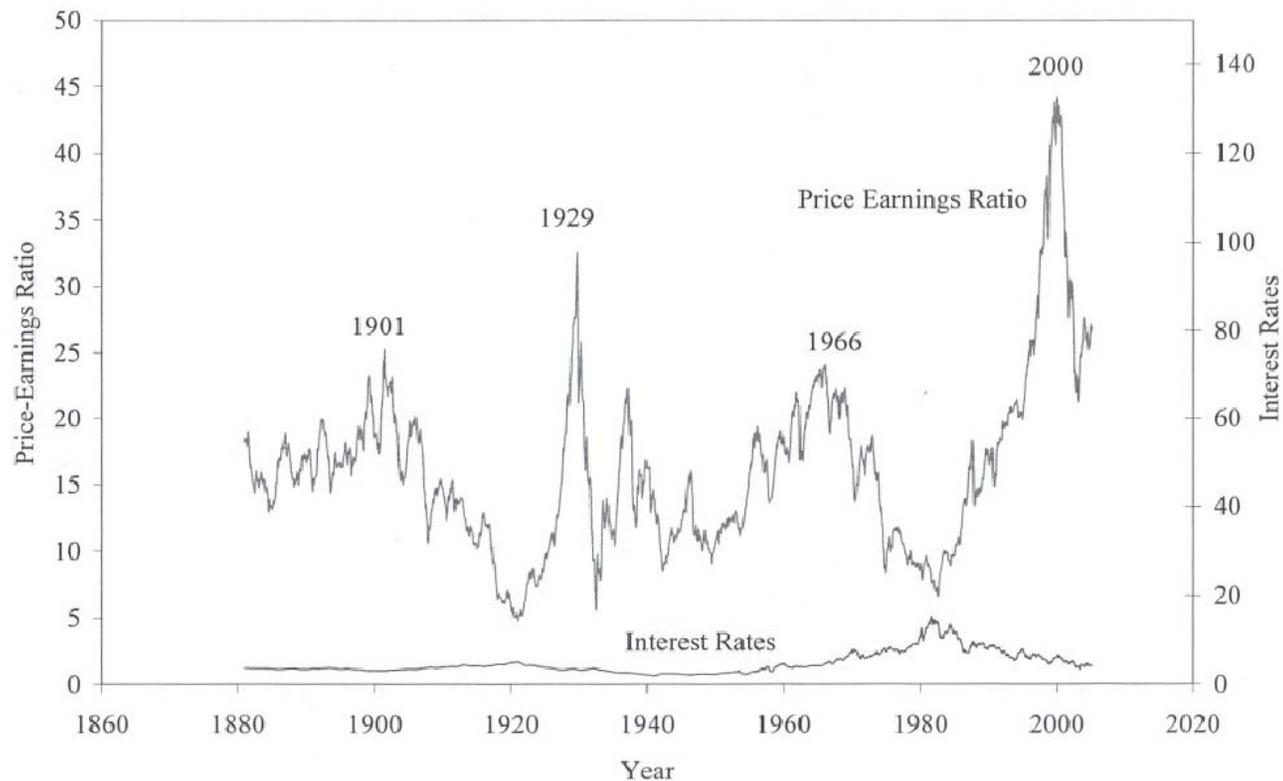
Stock market is not highly correlated to earnings



Source: Robert Shiller

Stock Market Modestly Correlated to Interest Rates

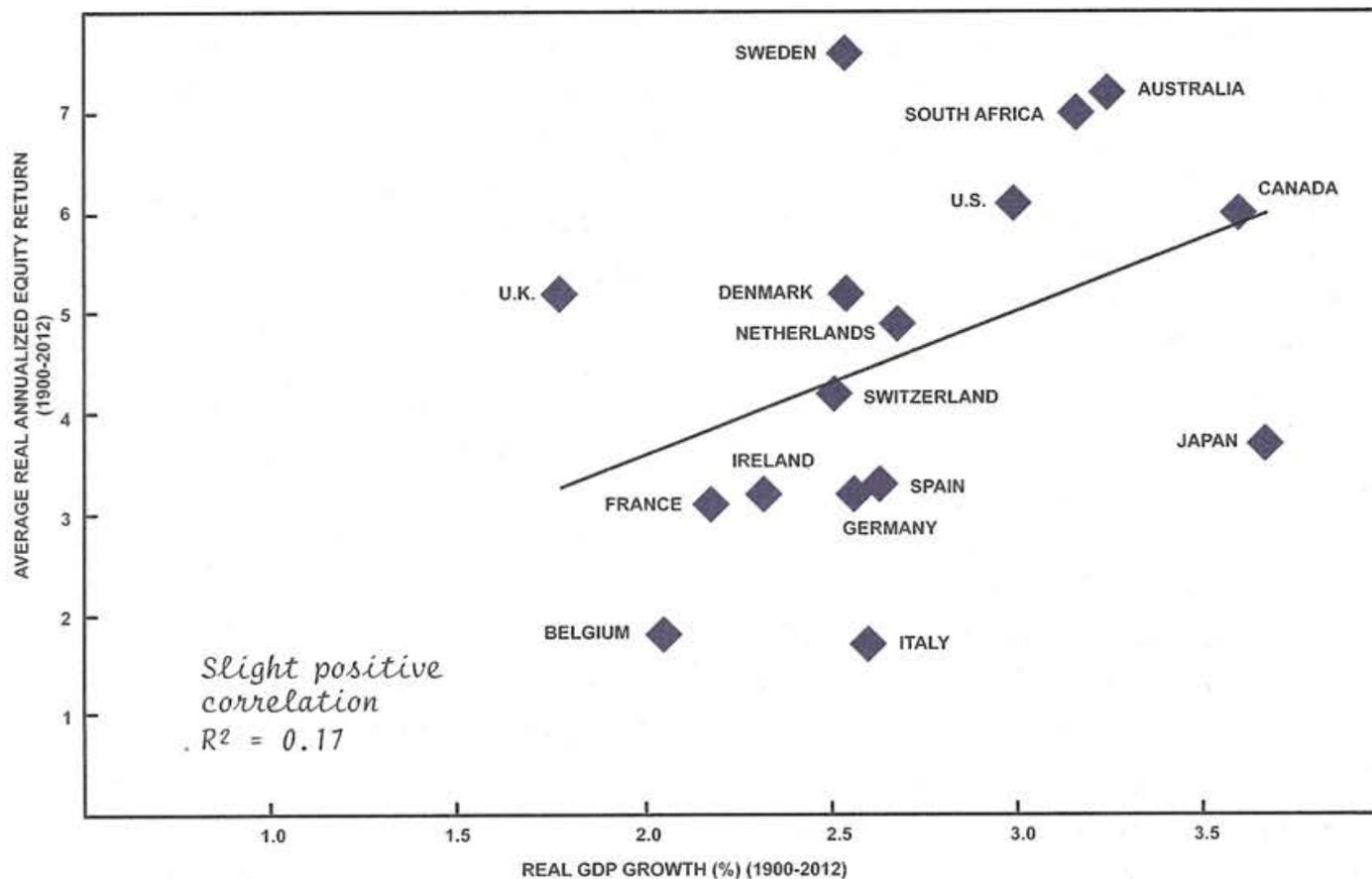
Historical correlation between earnings growth & interest rates is 43%



Source: Robert Shiller

The Stock Market has not been Highly Correlated to Economic Growth

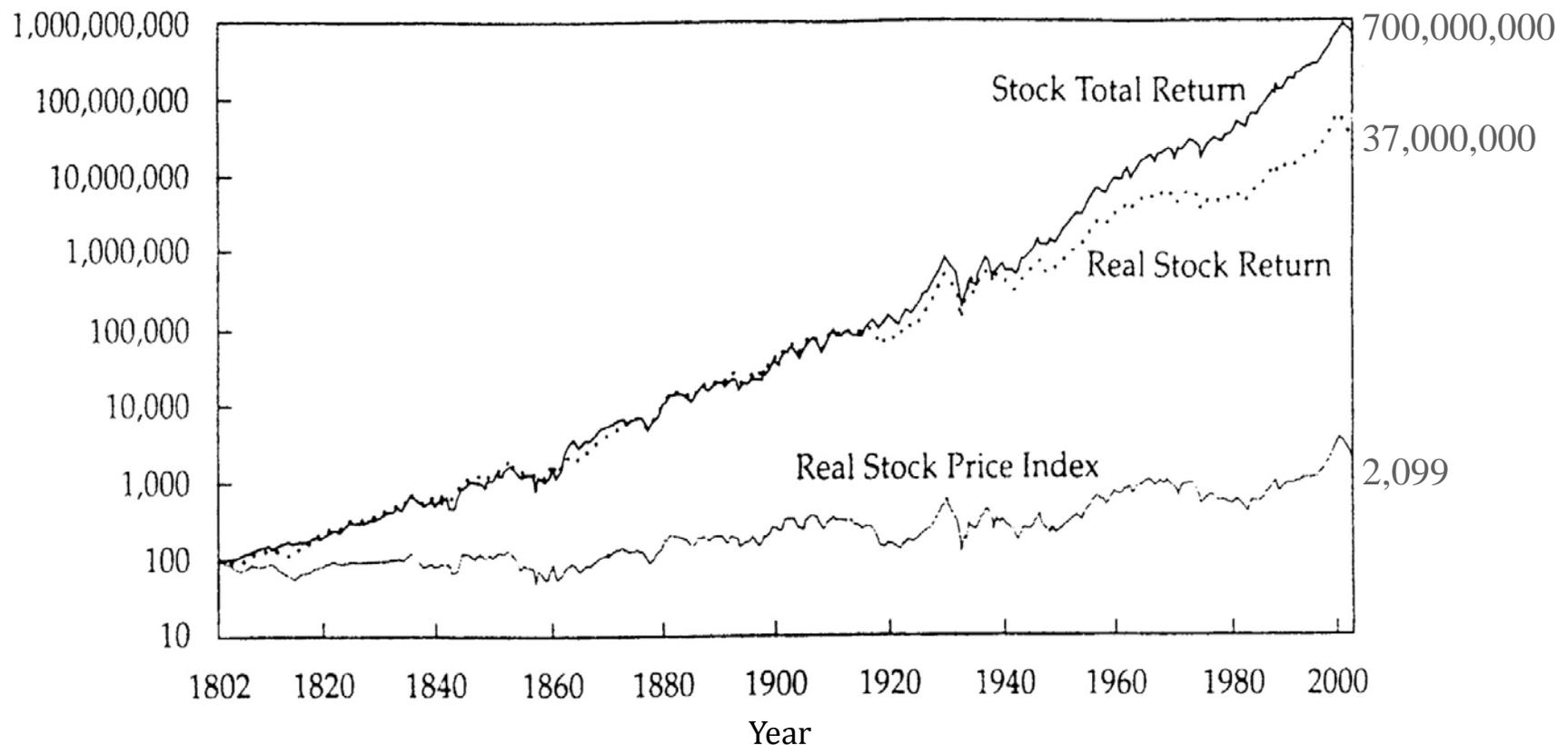
No Strong Correlation Between Long-Term GDP Growth and Equity Returns



Source: The Bank Credit Analyst as at November 2012. Provided for illustrative purposes only.

Investment Returns have been more about Dividends than Capital Gains

U.S. Dollars (log scale)

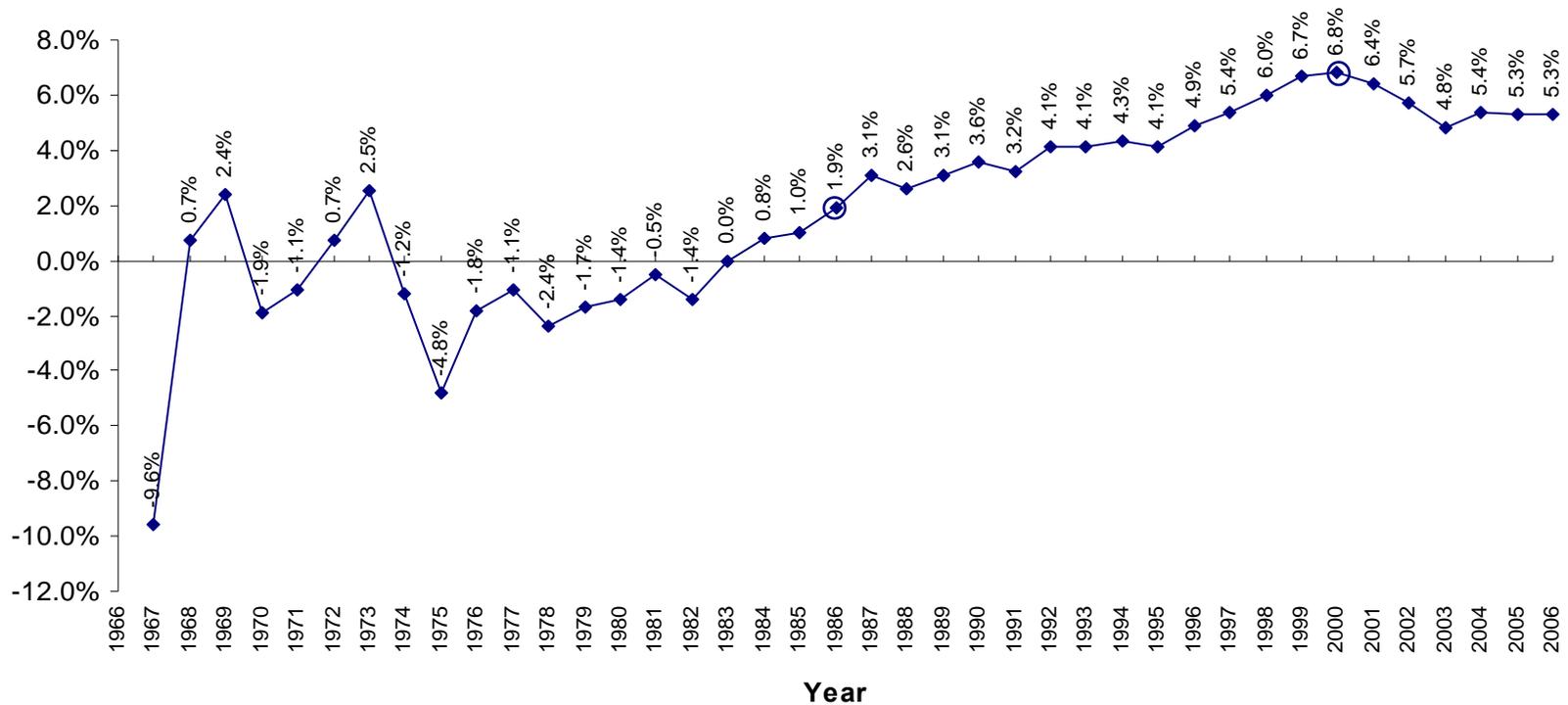


Source : Arnott & Bernstein, FAJ, March/April 2002.

The above returns do not represent the performance of any product or security managed by Sionna and are provided for illustrative purposes only. The performance presented represents historical performance of an unmanaged index. Returns would have been lower if they were subject to management fees and trading expenses. Past performance is not an indicator of future results. The indices are unmanaged and have no fees. One cannot invest directly in an Index.

High Prices Lead to Lower Long-Term Returns

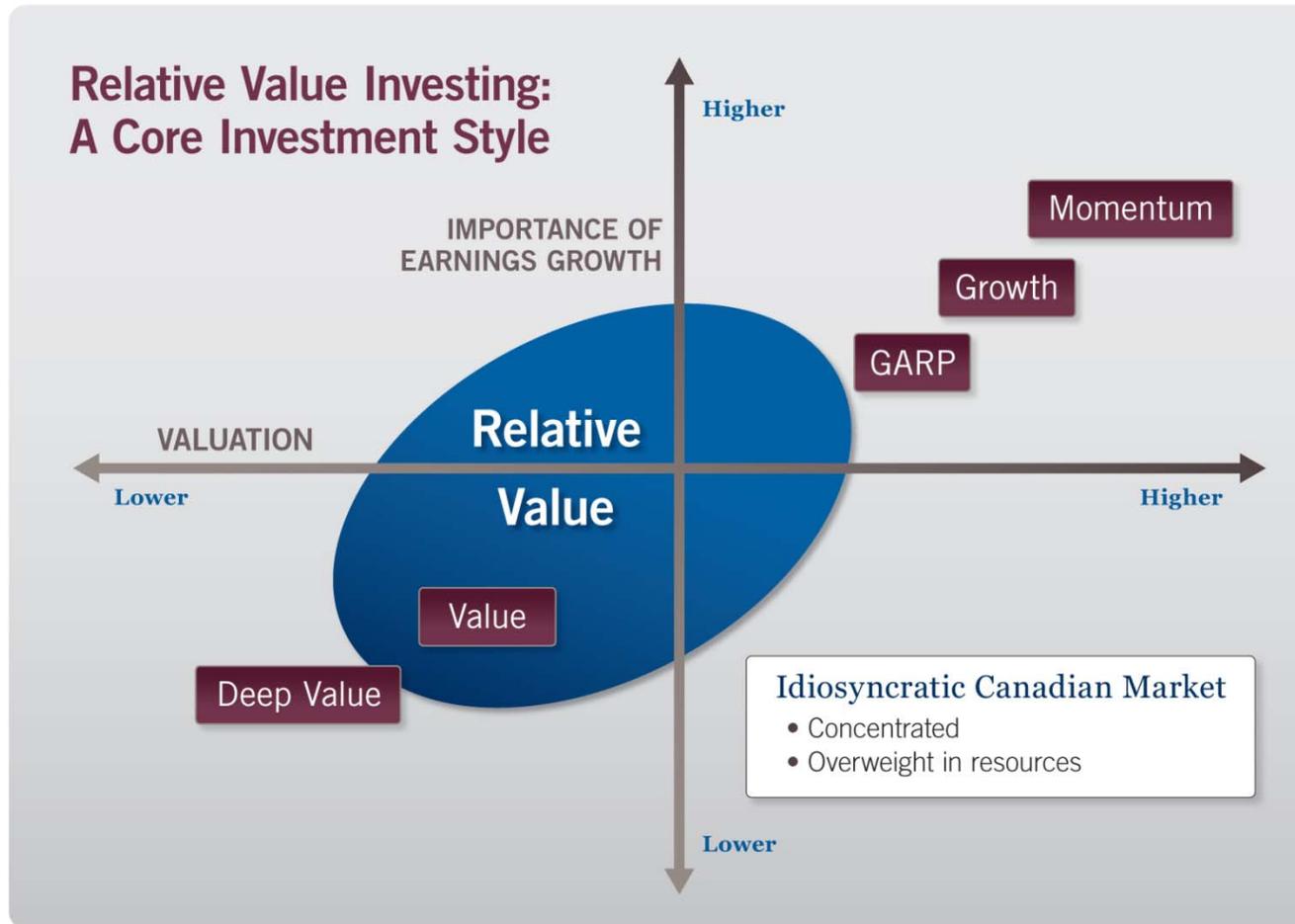
Real Cumulative Annual Total Rate of Return if Invested in 1966



Source: Vitaly N. Katsenelson "Active Value Investing – Making Money in Range Bound Markets", 2007

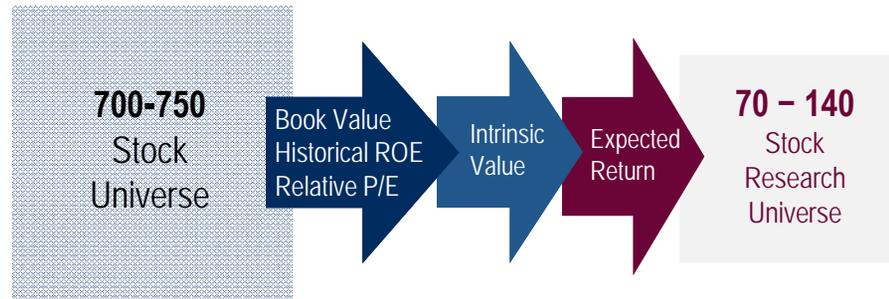
Advantage of Relative Value

Broadening our Investment Universe



Idea Generation

- Intrinsic Value Model



- Screen on multiple metrics
 - Cash flow, NAV, ROIC
- Industry conferences
- Management meetings
- Bi-monthly portfolio review meetings

Decision-Making Process



In-Depth Analysis

Assessing the Quality of a Business

Quantitative

70-140
Stock
Research
Universe

- Fundamental Analysis
- Corporate Interviews
- Structured Research Reports

40
Stock
Portfolio

For illustrative purposes only.

Idea Evaluation

Research Questionnaire: Internal Research and Management Interviews

Seek to identify companies with:

- Strong competitive position
(barriers to entry, economies of scale, leading market share)
- Predictable earnings, cash flows and dividends
- Conservative levels of debt
- Good capital allocators
- Capable, shareholder-oriented management teams
- Attractively valued shares

Investment Objective

Seek to buy stocks offering a minimum **30%** expected return over a two-year horizon

15.0% per annum from each stock

-9.5% TSX Historical Annual Return

5.5% Margin of Safety

Working Together to Manage the Portfolio

	M	T	W	T	F	M	T	W	T	F	M	T	W	T	F	M	T	W	T	F
Morning Meetings	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Research Meetings		█					█					█					█			
Portfolio Reviews									█											



Morning Meetings:

Research staff meets to share news on the stocks we own in our portfolio.



Research Meetings:

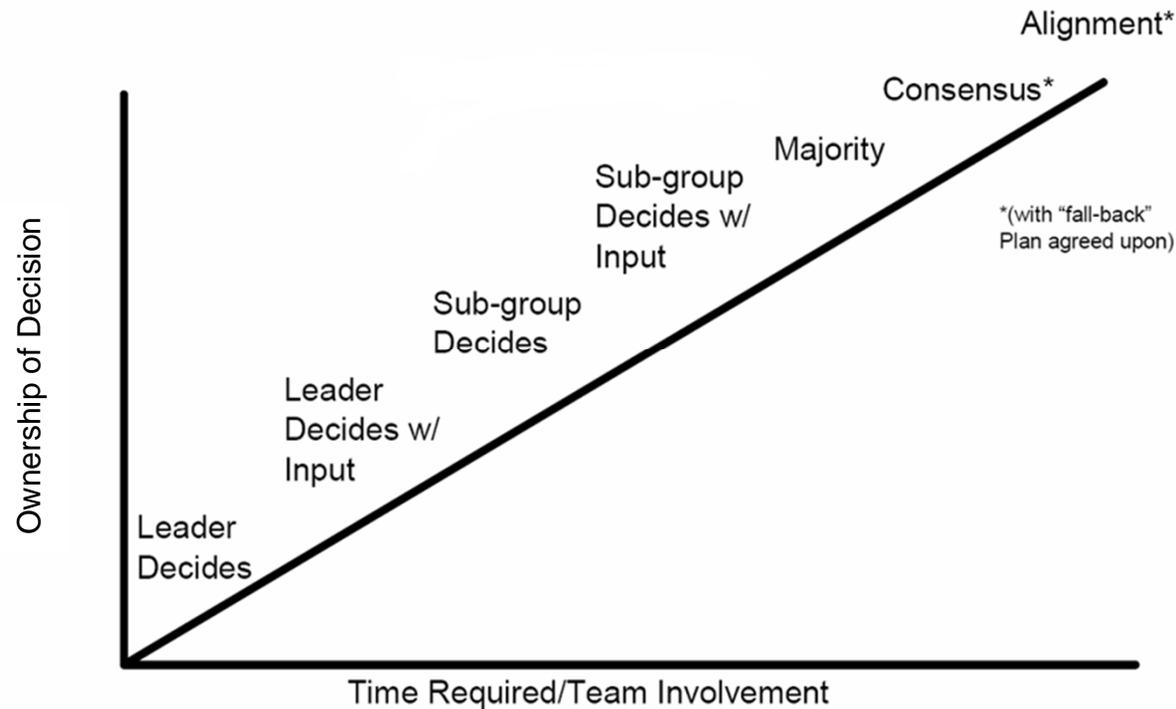
Held once every week to share and discuss in-depth research reports written by Sionna analysts.



Portfolio Reviews:

All-day reviews occur monthly and each mandate is reviewed bi-monthly. We examine attribution analysis and portfolio composition and demand that every stock we hold justifies its place in the portfolio.

Most Decisions are Made Through Consensus



Investment decisions are made by the respective portfolio manager with input from the team

Benefits:

- Leverages team's depth and experience
- Provides an effective training tool as all team members form an opinion, present their idea, and receive feedback

Fundamental Risk Management

Good fundamental analysis decreases security risk

Bottom-up selection of solid businesses:

- Favour consistent, predictable earnings
- Avoid stocks with financial risk and aggressive accounting

Ensure stocks have attractive valuation:

- Strong fundamentals: low P/E, P/B, P/CF, P/S
- Prefer above-average dividends

Focus on portfolio construction:

- Broadly diversified, 35-55 names, sector neutral
- Incremental trading limits emotion

Portfolio impact:

- Below market standard deviation
- Consistent down-market protection

Example: Finning International

World's largest dealer of Caterpillar equipment, with exclusive dealership territories in oil and mining regions such as Alberta and Chile. Generates revenue from new equipment sales, used equipment sales, parts and service, and equipment rental.

Investment Thesis

- Stable and recurring parts and service represents almost 50% of revenue
- Historically has had poor capital allocation and operational management – this creates large potential for improvement
- New CEO has articulated a clear strategy to improve return on invested capital, which should increase free cash flow generation
- Currently out of favour due to recent capital expenditure reductions in the mining industry

Attractive Valuation

- Price-to-earnings (12-month trailing) 14.3x
- Price-to-earnings (10-year average) 19x
- Price-to-cash flow 6.6x

As at December 31, 2014

Example: Morguard Corporation

An overlooked, high-quality real estate investment company

Company's Strengths

- Attractive portfolio of assets
- Management is conservative and value-oriented

Overlooked Stock

- Small float (CEO owns 52% of the company)
- Real estate company with a modest yield (0.5%)
- Its value comes from three different sources – therefore challenging to analyze
- Ignored stock - covered by few sell-side analysts

Attractive Financials

- Stock is trading at a significant discount to intrinsic value
- Price-to-book 0.7x
- Price-to-NAV 0.6x
- Price-to-cash flow 14x

As at December 31, 2014

Teck Resources

Canada's largest diversified mining company and the largest producer of metallurgical coal, copper and zinc.

Investment Thesis

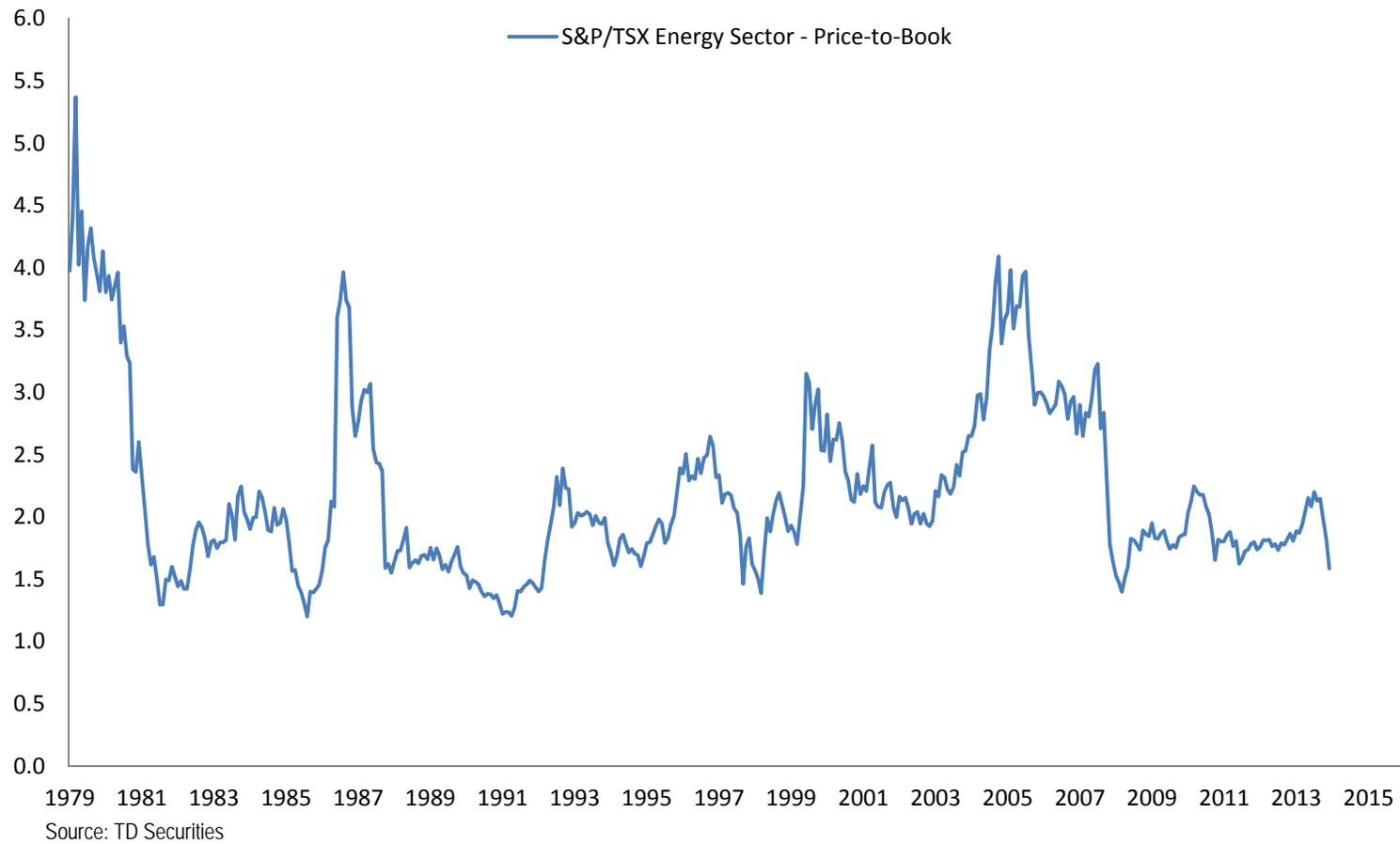
- Current valuation implies significant discount to intrinsic value
- Metallurgical coal prices at marginal cost, while copper and zinc prices trading near marginal cost
- Commodity prices likely to be weak in short term, but long term fundamentals are attractive

Attractive Valuation

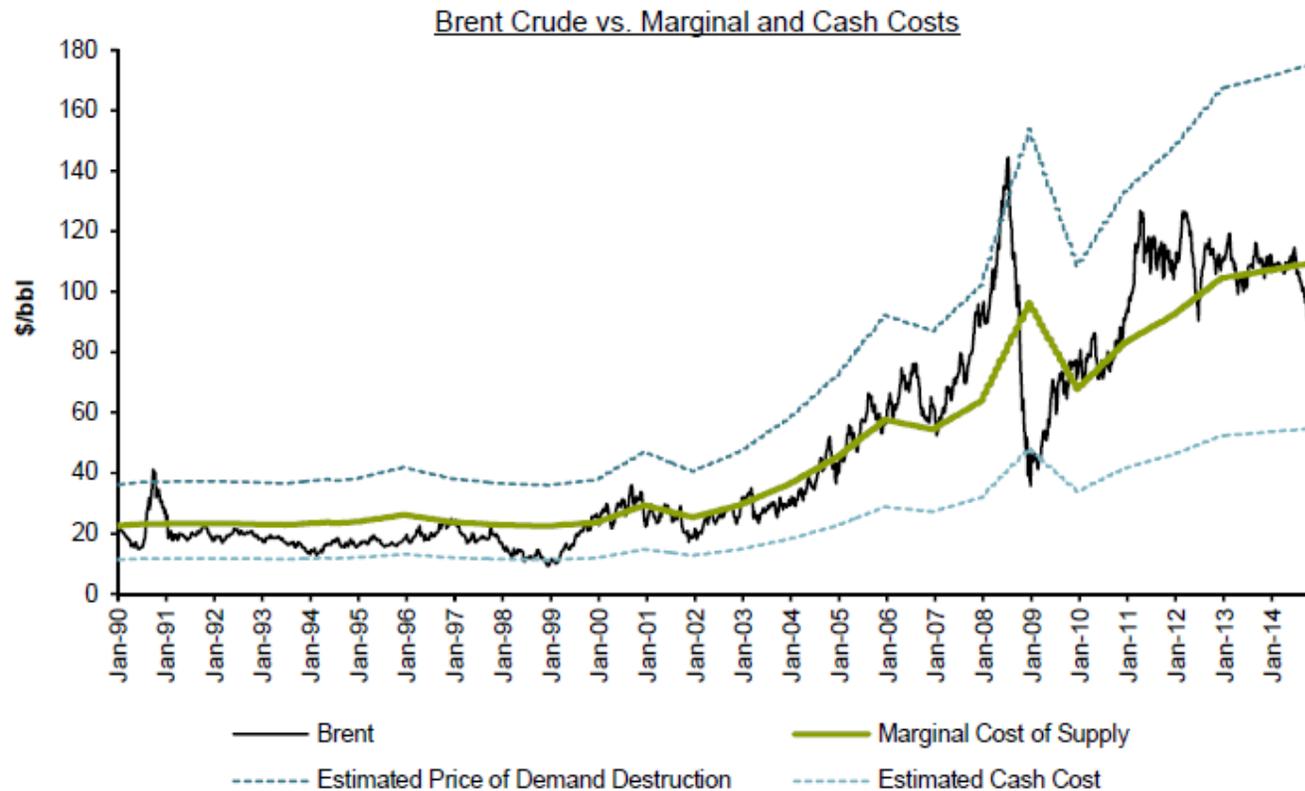
- Price-to-book 0.5x
- Dividend yield 5.7%
- Debt-to-capital 29.0%

As at December 31, 2014

Energy Sector Trading Near Historic Lows



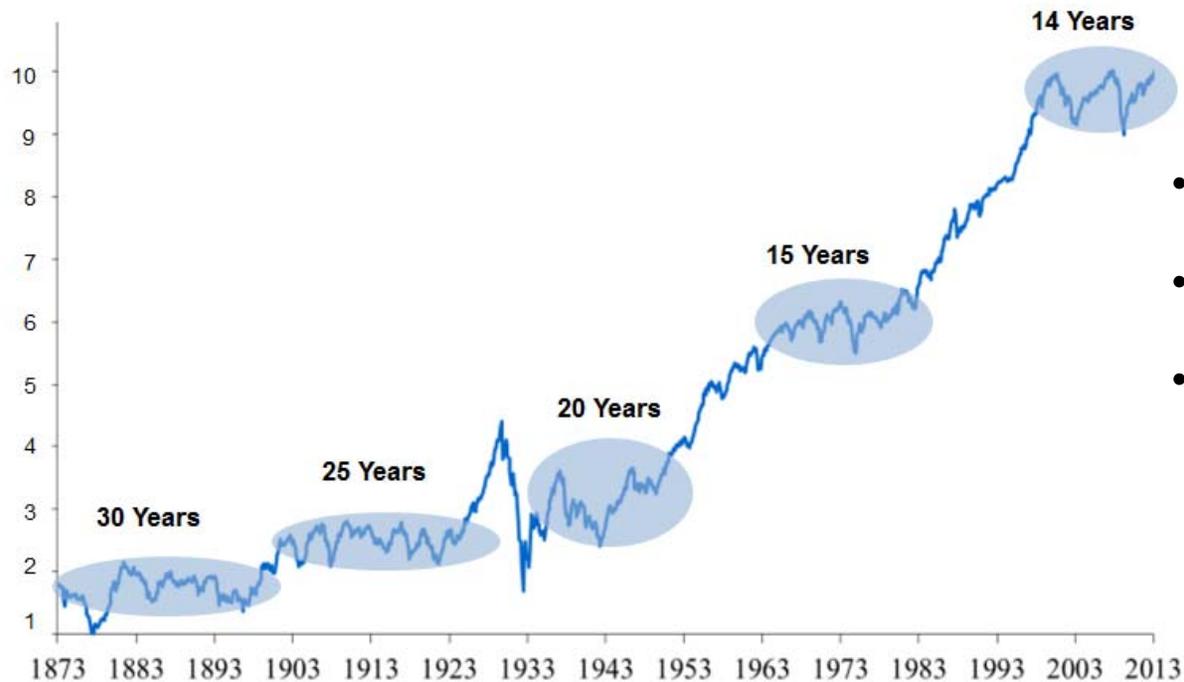
Oil Prices Trading Well Below Long-Term Marginal Cost of Production



Source: Bloomberg, FactSet, Company reports, Bernstein estimates and analysis

Range-Bound Markets are Typical

U.S. Stock Market

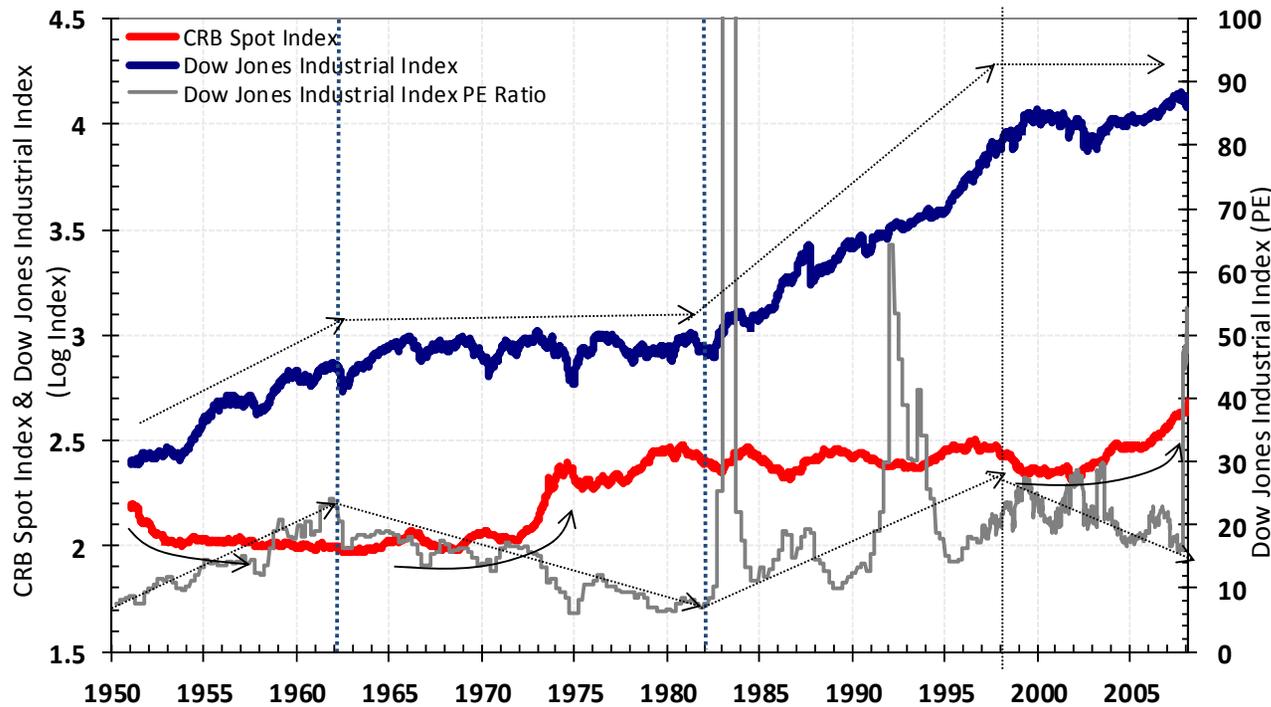


- Markets have been range-bound 109 of the last 144 years
- Secular bull runs are a rarity; not the norm
- After major bull markets, markets trend sideways for a minimum of 15 years

Source: Wells Capital Management

Commodities & Resource Heavy Indices

Have Tended to do Relatively Better in Range-Bound Markets

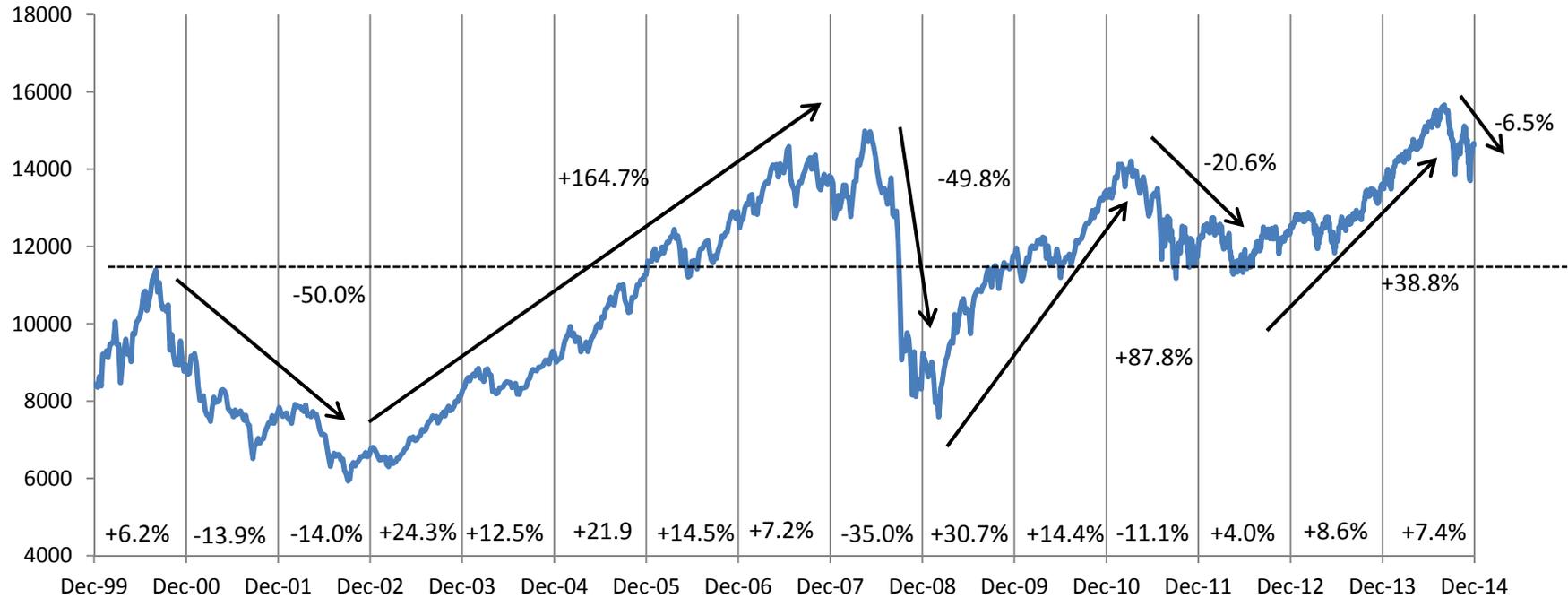


- Sideways Markets end with single digit P/E's
- S&P/TSX at 19.2 P/E Trailing*
- S&P 500 at 16.8 P/E Trailing*

Source: Rathbones' Investment Strategy, February 2008
As at December 31, 2014.
Indices are unmanaged and cannot be directly invested into.

Range-bound TSX Progress

As at December 31, 2014



Date	Index	P/E (x)	P/B (x)	P/S (x)	Yield (%)
Sep-00	11,388	33.7	3.2	2.0	0.8
Jan-06	11,388	19.1	2.7	1.6	1.9
Jul-10	11,388	17.6	1.8	1.6	2.8
May-12	11,388	13.2	1.7	1.5	3.0
Dec-14	14,632	19.4	1.9	1.7	2.9

Source: Bloomberg as at December 31, 2014. The above returns do not represent the performance of any product or security managed by Sionna and are provided for illustrative purposes only. The performance presented represents historical performance of an unmanaged index. Returns would have been lower if they were subject to management fees and trading expenses. Past performance is not an indicator of future results. The indices are unmanaged and have no fees. One cannot invest directly in an Index.

Learn to Love 6%

3 Sources of Total Equity Returns

	Earnings Growth + Change in P/E Multiple + Dividend Yield		
	Bear Market 1929–1932	Range-Bound Markets* Average	Bull Markets† Average
Earnings Growth	-28.1	5.6	5.6
+/- P/E Growth	-12.5	-4.6	7.0
= Stock Return	-37.1	0.7	13.0
+ Dividend	7.1	5.3	3.7
Total Return	-32.6	5.9	17.1
Inflation/Deflation	-8.4	4.9	2.5
Total Real Return	-26.4	1.0	14.2

*Range-Bound Markets: 1906–1924, 1937–1950, 1966–1982

†Bull Markets: 1950–1966, 1982–2000

Dividends have constituted 90% of total returns in range-bound markets

Values in chart shown in percent

Source: Vitaliy N. Katsenelson "Active Value Investing – Making Money in Range Bound Markets", 2007. For illustrative purposes only

Canada Has Outperformed U.S. During Sideways Market

January 1, 2000 – December 31, 2014



Index	Total Annualized Returns	
	C\$	US\$
S&P/TSX Composite Index (Index peak—current)*	4.22%	5.96%
S&P 500 Index (Index peak—current)**	3.11%	4.67%

Source: Bloomberg

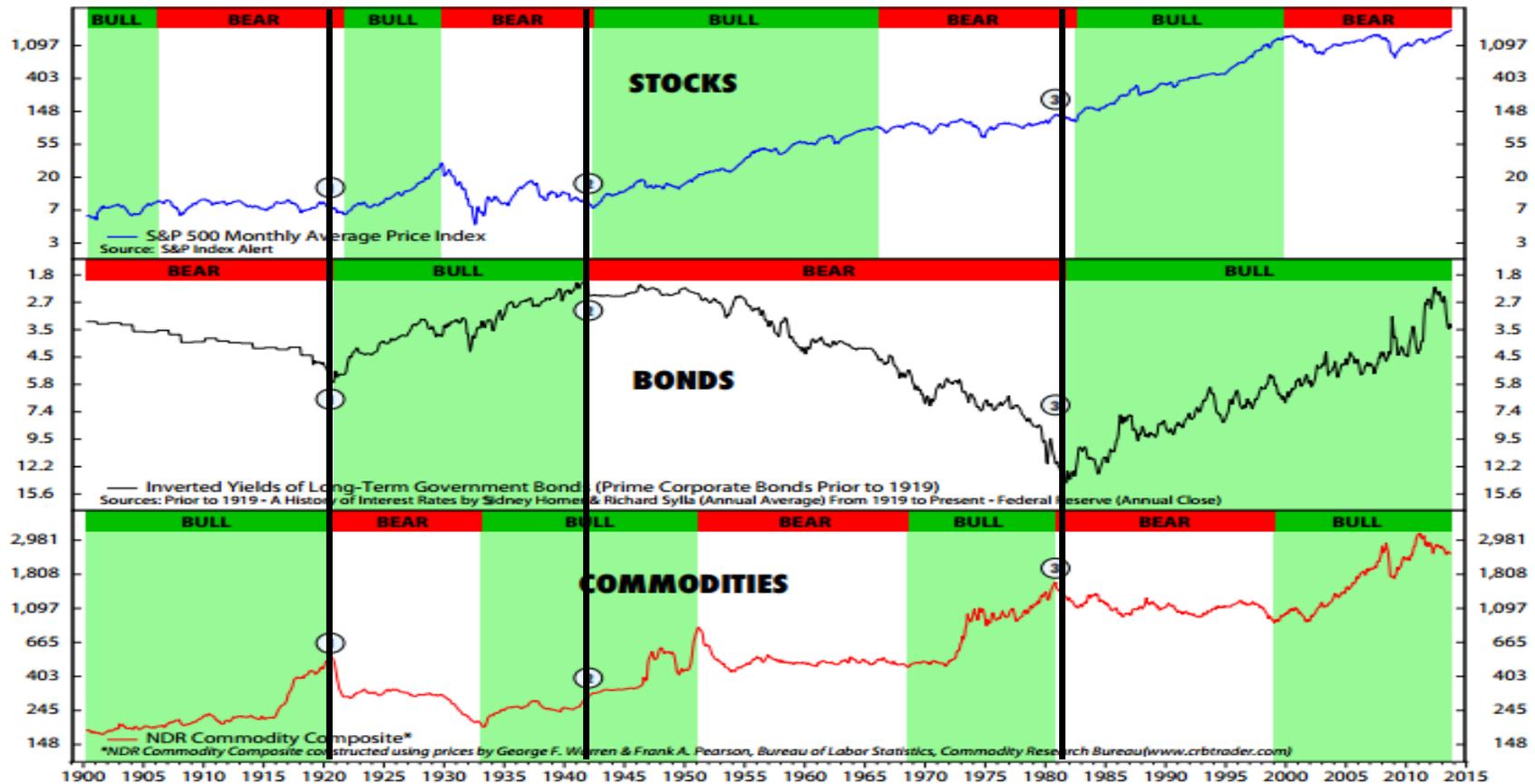
*S&P/TSX Composite Index (September 1, 2000–December 31, 2014)

**S&P 500 Index (March 24, 2000–December 31, 2014)

Indices are unmanaged and cannot be directly invested into.

Interest Rate Changes Will Signal Equity Bull Market

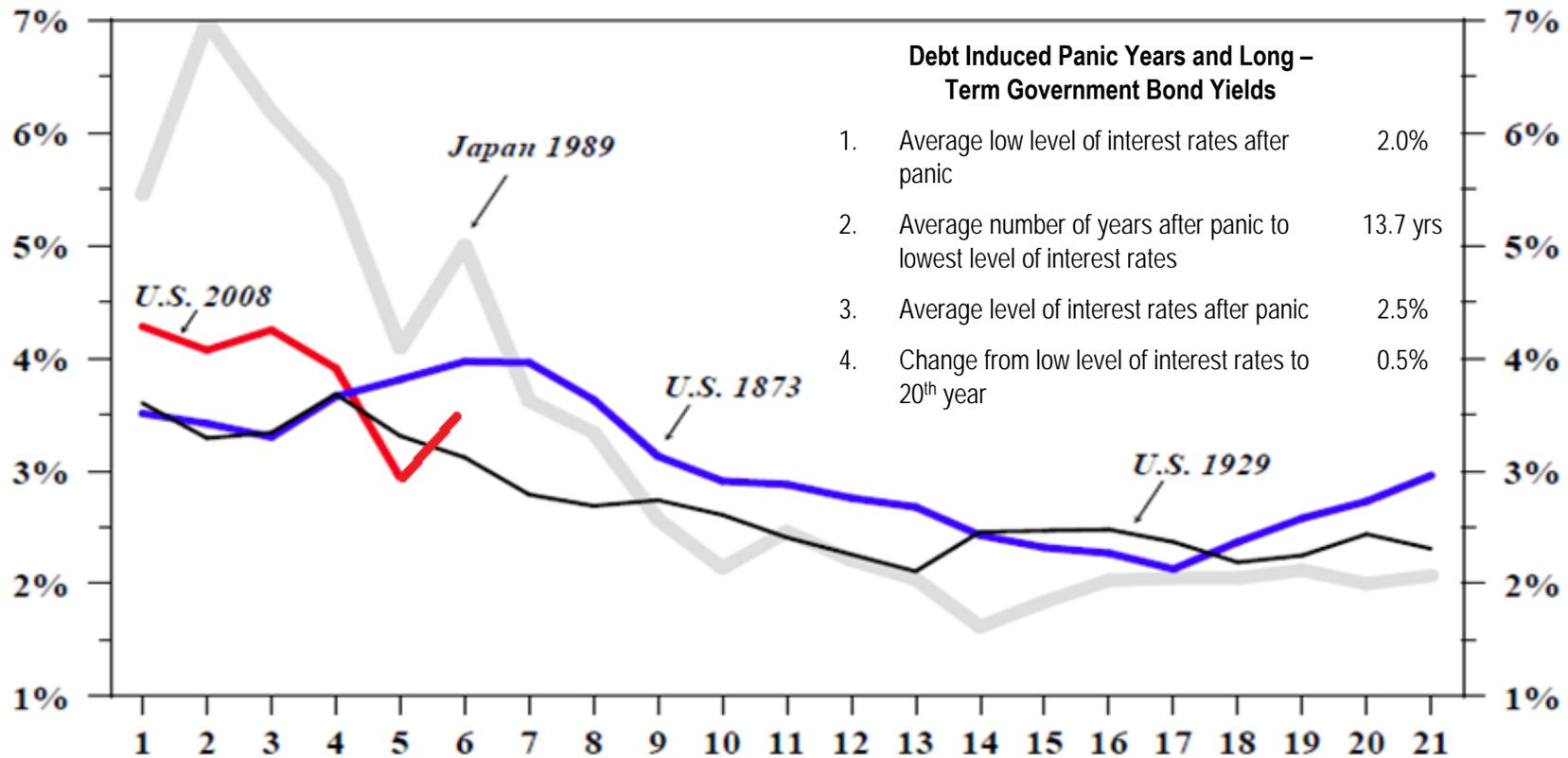
Asset Classes & Secular Trends



Monthly Data 1900-01-31 to 2013-11-30 (Log Scale)

Source: Ned Davis Research Group

Excessive Debt Leads to Extended Periods of Low Interest Rates



Sources: Federal Reserve Board, Homer & Sylla, Bank of Japan. U.S. line through 2012.

After excessive debt panic years:

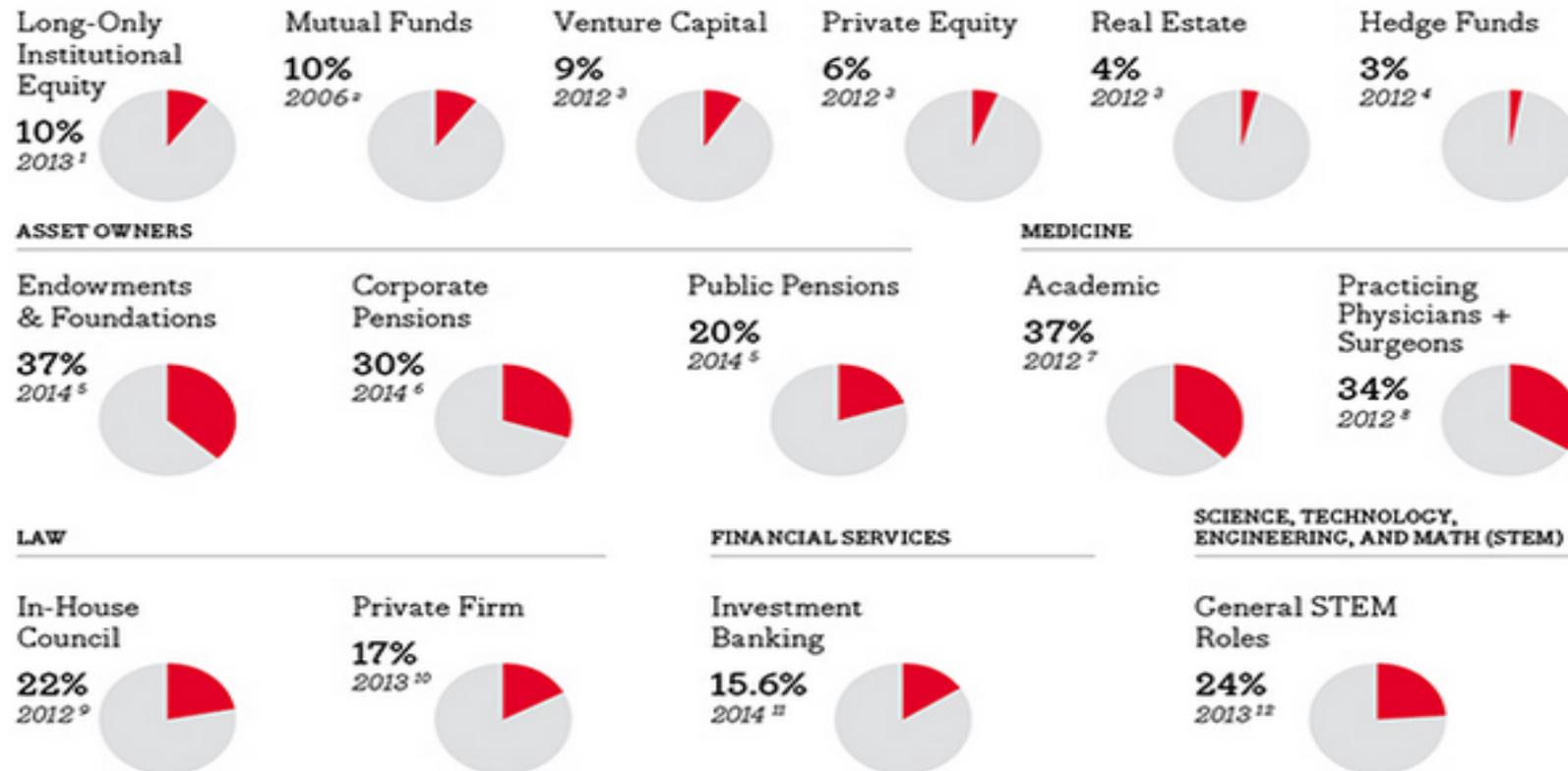
- Reduces GDP Growth, slows inflation and lowers long term interest rates

The Original Value Investor... 500 year old advice

“Divide your fortune into four equal parts: stocks, real estate, bonds and gold coins. Be prepared to lose on one of them most of the time. During inflation, you will lose on bonds and win on gold and real estate : during deflation, you lose on real estate and win on bonds, while your stocks will see you through both periods, though in a mixed fashion. Whenever performance differences cause a major imbalance, rebalance your fortunes back to the four equal parts.”

Jacob Fugger the Rich
1459-1525

The Percentage of Females in Senior Roles Across Professions



¹Margaret Stumpp, Quantitative Management Associates. "Where the Boys Are—Gender, Risk Taking, and Authority in Institutional Equity Management"; ²Alexandra Niessen & Stefan Ruenzi, Centre for Financial Research, Cologne. "Sex Matters: Gender and Mutual Funds"; ³Nori Gerardo Lietz, Harvard Business School. "Cloistered in the Pink Ghetto: Women in Private Equity, Real Estate And Venture Capital"; ⁴Susan Solovay, private data; ⁵Chief Investment Officer proprietary research; ⁶Committee for Investment of Employee Benefit Assets; ⁷US Bureau of Labor Statistics; ⁸Association of American Medical Colleges; ⁹American Bar Association; ¹⁰National Association of Women Lawyers; ¹¹US Equal Employment Opportunity Commission; ¹²US Department of Commerce.

Source: Chief Investment Officer – The Missing Women of Asset Management, June 20, 2014

Discovering Your Intrinsic Value

1. Early Career

- Building Technical Expertise, Becoming an Expert
- Educate, Passion, Work, Network, Volunteer, Save Money \$\$

2. Mid Career

- Manager, Build Industry Strategic View, Know Where the Industry is Heading and Have Advice on How Best to Navigate That Future
- Aim to Be in Top 20%, Volunteer in Leadership Roles, Develop Personal Brand

3. Mature Career

- Leadership – Focus on “Best In Class” Globally and What Does It Take To Get There
- Financial Independence
- Help Others Succeed
- Leave a Legacy

The 2015 Sionna Investment Research Competition



KEY DETAILS



Submission deadline:
April 30, 2015

Winners contacted by:
July 2015

Prize awarded:
\$2,500

plus travel expenses (if applicable) to visit our office and present your findings to the Sionna investment team.

Calling all UNDERGRADUATE STUDENTS
with a **PASSION** for investing!

The Challenge:

Select and analyze a Canadian company with a market capitalization of below \$1 billion which you believe would be a good long term investment. Submit your findings in a report with a maximum of 10 pages.

To Participate:

The contest is open to all undergraduate students across Canada (excluding Quebec).

To learn more please visit:

<http://www.sionna.ca/the-2015-sionna-investment-research-competition/>