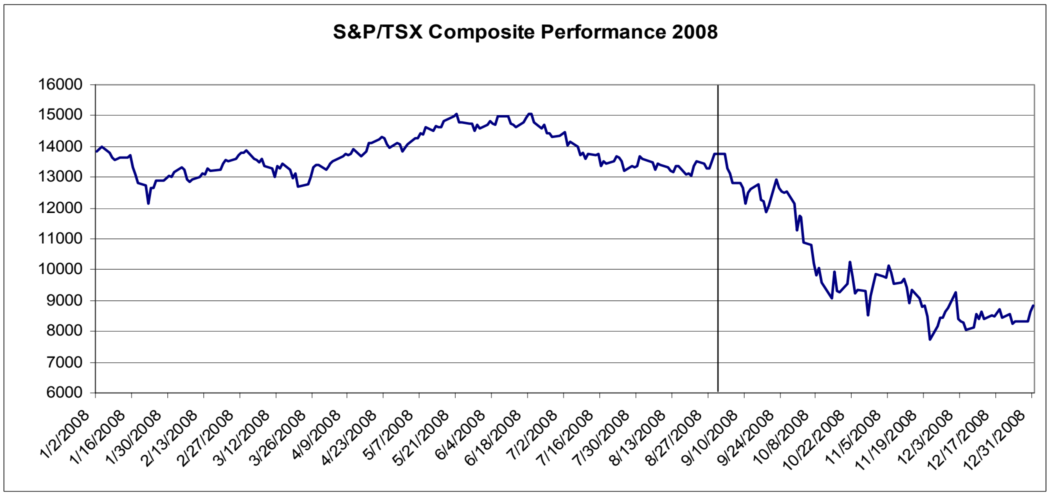
Sionna
Investment Managers

## Canadian Large Cap Value
**Fourth Quarter, 2008**

## Canadian Equity Market Commentary

From a capital markets perspective, few of us will look back on the year 2008 with fond memories. Those who emerged unscathed from the financial crisis that enveloped the globe are few and far between. Sionna's conservative investment style did, however, allow the portfolio to outperform the benchmark S&P/TSX Composite Index in both the fourth quarter of 2008 and on an annual basis. The past year was one of unprecedented challenges in the financial markets and although we were proud of the relative returns that we were able to achieve for our clients, the absolute performance that the portfolio attained during 2008 has left a somewhat bittersweet taste.

The first six months of 2008 saw the Canadian market actually *increase* in value compared with its level at the end of 2007. On the back of continued strength in the Energy and Materials sectors, the S&P/TSX Composite Index soared above the 15,000 mark in mid-June. With the benefit of hindsight, it was apparent, however, that storm clouds had been forming for some time and it was just a matter of when, not if, they would finally erupt. While it is difficult to point to a single event as the eruption's trigger, the second half of the year, and particularly the fourth quarter, was when the severity of the crisis was fully reflected by the Canadian equity market.




In the fourth quarter of 2008, only the Consumer Staples sector provided investors in the Canadian stock market with a positive return, as the sector posted a gain of 2.8%. In times of market turmoil, Consumer Staples stocks act as a refuge of sorts as they tend to hold their value better than stocks in other sectors. The fourth quarter of 2008 was no exception. All of the other sectors in the Canadian market posted negative returns in the fourth quarter, with Financials and Energy leading the way down with total returns of -29.9% and -27.2%, respectively.

Sionna continues to invest with caution as we are not comfortable with the stability of the global economy, particularly the Financials sector. It is not clear to us that this sector has experienced all of the necessary pain that is required to wash away the leveraged excess of the past. Although value has begun to emerge in certain sectors, and some stocks look cheap and have the potential for outsized long-term returns, we are wary of the overarching theme of negativity and will invest accordingly, with capital preservation as a top priority during the coming months.

## 2008 Fourth Quarter Portfolio Performance

The fund outperformed the benchmark S&P/TSX Composite Index by 5.43% in the fourth quarter, posting a return of -17.29%.

As financial markets collapsed in the fourth quarter, one of the few investments that actually had a positive return was gold. The spot price of gold finished the year at $882.05USD, which was up from $870.95USD at the end of the third quarter: a gain of 1.3%. Due to this relative outperformance, the portfolio's overweight position in **SPDR Gold Trust** (formerly StreetTracks Gold) made a significant positive contribution. SPDR Gold Trust is an ETF that holds physical gold and tracks the performance of the commodity. Not only did this holding benefit from the rise in the price of the gold, but, since it is a U.S. exchange traded security, the investment also benefited from the fourth quarter decline in the Canadian dollar. In Canadian dollar terms, SPDR Gold Trust rose by 16.8%, compared with the 1.3% gain achieved by the commodity in U.S. dollar terms.

Another significant positive contributor to the portfolio in the fourth quarter was an overweight exposure to **Empire Co.,** a holding company which derives most of its value from its 100% ownership of the Sobey's grocery store chain. As mentioned earlier in the report, Consumer Staples was the only sector in the Canadian market to achieve a positive return in the fourth quarter and Empire benefited from the flight to quality that the sector experienced.

Two stocks in the Materials sector detracted from the portfolio's performance in the fourth quarter. An overweight exposure to **Teck Cominco** was the largest drag on the portfolio. A combination of weak commodity prices and an aggressive acquisition of Fording Coal compromised the company's balance sheet and caused Teck's shares to decline significantly. **Norbord** was the second largest detractor from performance in the quarter. Although Norbord remains a low-cost operator with a respected management team, the company could not escape the pain brought on by the ongoing U.S. housing slump. The company's leveraged balance sheet forced Norbord to undertake a highly dilutive rights offering, which sent the shares into a downward tailspin.

**Jean Coutu** was added to the portfolio during the quarter. The company is an excellent operator, commands a 40% market share of the Quebec drugstore market, and has a solid balance sheet with minimal financial risk.

**Magna International** was added to the portfolio because it is one of the dominant auto suppliers in North America and is trading at a tremendously attractive valuation due to the cyclical downturn in the global automotive industry. Magna trades at a low price-to-book ratio of 0.4x and has net cash of approximately $17 per share, which is approximately 40% of the company's market capitalization.

During the quarter, the Fund added a new position in **Telus Corporation**. Telus is a leader in the Canadian telecom industry with a strong balance sheet and attractive valuation.

**Teck** was eliminated from the portfolio after we became concerned about the company's ability to re-finance a bridge loan that is coming due in 2009. These concerns grew as metallurgical coal prices began to show signs of weakness and as the debt and equity markets became increasingly difficult for most companies to access.

**Power Financial** was eliminated from the portfolio when we switched the weight into Power Corporation. Power Corporation provides the same business exposure as Power Financial and the stocks trade at a similar valuation. This switch was initiated to allow us to add other attractive stocks to the portfolio, while remaining within the 40 name limit, in accordance with our mandate.

**Norbord** was removed from the portfolio after the company eliminated the dividend and launched a rights issue to de-leverage the balance sheet. After the significant dilution arising from the rights issue, we do not believe that the shares offer an attractive investment opportunity, given the considerable risks.