

Q2-2019 Commentary

## Sentry Diversified Equity Fund

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### PERFORMANCE SUMMARY

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- In the second quarter of 2019, Series F of Sentry Diversified Equity Fund (the “Fund”) returned -0.1% compared with its blended benchmark (70% S&P/TSX Composite Total Return Index and 30% S&P 500 Total Return Index), which was up 2.4%.
- The Fund underperformed its benchmark during the period largely as a result of security selection within the information technology and materials sectors.

### CONTRIBUTORS TO PERFORMANCE

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- **Real Matters Inc.** develops and provides technology and network management solutions to mortgage lending and insurance industries in Canada and the United States. The holding contributed to the Fund’s performance as a result of ongoing market share gains, margin and operational execution, and a strong mortgage market.
- **Canadian Pacific Railway Ltd.** owns and operates a transcontinental freight railway in Canada and the United States. The company transports bulk commodities (grain, coal, potash, etc.) and merchandise freight (energy, chemicals, plastics, etc.). The company has seen success recently, driven by their CEO and greater railway traffic. The company also benefited from technology-driven efficiency initiatives.

### DETRACTORS FROM PERFORMANCE

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- **Scholastic Corp.** is a U.S.-based multinational publishing, education and media company that publishes and sells books and educational materials for schools, teachers, parents and children. The company has recently had significant challenges in the form of revenue shortfalls in sales tax collection, higher-than-expected expenses for book fairs and adverse accounting impacts. We do not believe these issues will significantly affect the earnings power of the business on a longer-term basis and see significant value in the Scholastic brand.
- **Canfor Pulp Products Inc.**, together with its subsidiaries, produces and supplies pulp and paper products in North America, Europe, Asia and internationally. The company operates through two segments: pulp and paper. Recently the company has suffered from softening of the softwood pulp market and an uncertain fibre cost environment in British Columbia. While end markets are cyclical, we believe Canfor Pulp Products has the cost position, balance sheet and management expertise to weather this downturn effectively.

## PORTFOLIO ACTIVITY

- We added a new position in **O'Reilly Automotive Inc.** to the Fund. O'Reilly Automotive engages in the retail of automotive aftermarket parts, tools, supplies, equipment and accessories in the United States. The company's stores and distribution centres support its strong dual market strategy to expand its presence across both urban and rural areas. This gives O'Reilly Automotive a competitive edge.
- We eliminated a position in **AGT Food and Ingredients Inc.** as the company plans to privatize and its shares were de-listed from the Toronto Stock Exchange. Based in Canada, the company produces and exports pulses, staple foods and other food ingredients worldwide. It is one of the world's largest pulse-processing companies.

## MARKET OUTLOOK

- We have a cautiously optimistic outlook as we believe that, while growth has slowed globally, a recession in North America is unlikely. However, the Western Canada region would be most at risk if there are no new energy infrastructure projects approved.
- Compared to last quarter, we are more concerned regarding valuations. Company fundamentals have weakened but equity prices have continued to rise.
- Risks of an equity market downturn have increased and we are focused on the debt levels of companies held in the Fund relative to the stability of cash flows they generate.
- We remain cautious on Canadian household debt levels.
- Recent speculation regarding interest-rate cuts, government housing stimulus and LNG Canada investments are reasons for optimism, and we are monitoring them closely.

FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR	S.I.*
Sentry Diversified Equity Fund, Series F	-1.4%	6.1%	4.6%	9.5%	7.7%
Benchmark: 70% S&P/TSX Composite TR Index and 30% S&P 500 TR Index	5.8%	10.2%	8.0%	10.5%	7.4%

\* Inception date of Sentry Diversified Equity Fund, Series F: July 28, 2005.

Source: Sentry Investment Management. Data as at June 30, 2019.

All returns are total returns, stated in Canadian dollars. Fund returns are for Series F, net of fees, all distributions reinvested.



The comparison presented is intended to illustrate the Mutual Fund's historical performance as compared with the historical performance of widely quoted market indexes or a weighted blend of widely quoted market indexes. There are various important differences that may exist between the Mutual Fund and the stated indexes that may affect the performance of each. The objectives and strategies of the Mutual Fund result in holdings that do not necessarily reflect the constituents of and their weights within the comparable indexes. Indexes are unmanaged and their returns do not include any sales charges or fees. It is not possible to invest directly in market indexes.

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